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Consumer Education

N. E. BROWN

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Consumer Education



Consumer Education

N. E. BROWN

*Co-ordinator of Social Studies,
Wetaskiwin High School*

TORONTO

THE MACMILLAN COMPANY OF CANADA LIMITED

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Preface

There has been an increasing number of requests over the years for more consumer education in schools. These requests have indicated that students assuming their roles as consumers in a community should have more practical knowledge of spending money wisely. Many people have not learned how to get full value for their money.

This booklet is intended to provide the average consumer with some practical knowledge of the different types of credit, as well as to give some unbiased suggestions and warnings about the use of cash or credit in the day-to-day choice of consumer goods. It is not meant to be the last word in consumer education, but rather it is an impetus for students and adults to proceed to further investigation in this field.

Appreciation goes to the Better Business Bureau of Edmonton, Alberta, which provided indispensable assistance in obtaining research material for the study. I would like also to express thanks to the members of the Senior High School Social Studies Sub-Committee of Alberta for their many suggestions and words of encouragement during production.

N. E. BROWN



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Introduction

All through the ages people have been concerned with making a living. The study of such a process is called *Economics*. People daily experience certain desires or wants. Some of these, such as food, clothing, and shelter, are basic necessities. Others, probably larger in number, are those that bring comfort and pleasure into life. In the economic sense, all the material things that have the potentiality of satisfying a human desire are called goods. But the enjoyment by the public of these goods involves in all four steps: making goods (production); transferring goods (exchange); sharing in goods (distribution); and using goods (consumption).

In Canada, any individual or group is relatively free to produce goods. What is required essentially is considerable initiative, raw materials, labour, machinery to transform the raw resources, and a market for the finished product. From the interaction of these elements comes a finished product — a good that may satisfy many human desires.

This product is not of much value, however, unless it is brought within reach of those who desire it. Many people are employed in the process of transporting goods by rail, air, road, or water. On arrival at destination, though, another problem presents itself: on what basis are these products to be exchanged? It is cumbersome for the producer of corn flakes, for example, to exchange this breakfast food for an automobile produced by another group. To solve this problem, money has been introduced as a medium of exchange. To facilitate this exchange, institutions such as banks have been established.

It is evident that in the producing and marketing of an article many people are involved. Some obtain remuneration in the form of rent, others in the form of wages, interest, or profit. Fundamentally, everyone in our economic system contributes something to the production of goods and thus is entitled to share in the income received.

Just as all people play some part in the production of goods, likewise all are users of goods. The basic purpose of all production is the consumption of goods. Consumption means drinking, eating food, wearing clothes, living in houses, and so forth. Of course, not everyone is reasonable in his consumption of goods. Sometimes uncomfortable clothes are worn in the name of fashion; sometimes people live beyond their means in order to attain what they think is "status" in the community. However, it is on this last phase (consumption) of the economic cycle that a special emphasis will be placed in this study. When one considers that all people are consumers, that they are constantly purchasing articles for their own use and enjoyment, and that these purchases represent billions of dollars yearly, it becomes increasingly evident that they must purchase goods intelligently — according to their needs and within their means. It has also become increasingly evident that the majority of people in Canada do not pay cash for every item they purchase. Some form of credit is used. Credit has become an integral part of our economy.

Naturally, everyone wishes to make maximum use of his income. He wants to enjoy the fruits of his labour, to get full value in goods and services for his dollars. It is the aim of this study to show that credit is a service that requires payment, and that credit can be extremely valuable if used wisely.

Anyone getting credit assumes an obligation toward the creditor and becomes an individual under responsibility. Therefore, potential users of credit should understand its basic principles. It is the aim of this study to help the potential consumer stretch his dollars by selecting goods wisely.

Most men involved in business are hard-working, efficient, and honest individuals who provide goods and services according to a certain ethical code or standard; but unfortunately, some are not of this calibre. That is why an attempt is also being made in this study to warn the consumer against some of the pitfalls of credit buying. It is hoped that the reader will thereby become a more intelligent consumer.



I Credit Used by Consumers

“Credit is like a looking glass, which, when once sullied by a breath, may be wiped clear again; but if once cracked can never be repaired.”—SIR WALTER SCOTT

Some economists maintain that we are living in a world of credit — a credit economy or a business system that is permeated by a power called credit. It is doubtful if our society could operate if it were not for credit. Not only individuals but also businesses and governments make great use of credit to open our land and to develop our vast resources. Because of credit, it is possible for the average individual to enjoy a greater variety of pleasurable material things than his forefathers dreamed of. As someone said recently, “In our shrinking world, you can now gird the globe with a credit card and a drip-dry shirt.”

The above is a brief description of the good side of credit. It is evident, however, that widespread use of credit results in an enormous debt structure — for the opposite side of credit is debit. In our modern society it is probably very easy for people to live beyond their means and to purchase luxury items that they cannot afford. This not only does harm to the person who goes into debt, but also causes hardship to the lender, because he is no doubt in debt to others. Breakdowns caused by unwise use of credit spread in ever-widening circles.

The consumer is, in a sense, the key to our credit economy. As long as he buys and pays according to agreement — or, as Sir Walter Scott would say, keeps the mirror clean — the business system can function normally. When the consumer does not buy or does not pay promptly, “the mirror is cracked” and our economic system fails to function properly.

For the good of the individual and for the good of the economy as a whole, it is important that consumers understand credit and its variety of forms fully and clearly.

MEANING OF CREDIT

“Charge it!” is an extremely common term today. Every time this phrase is uttered, a form of credit is implied. Credit is based on trust and confidence. When a student goes down to a record shop and purchases a record player, saying “charge it”, considerable trust is involved. The student gets his article today, whereas the seller has to wait until some future date to get his money. He has trust and confidence in the buyer to the extent that he believes that he will receive the payment. Although one definition of credit is “suspicion asleep”, credit is simply “the privilege to pay in the future for something received in the present”. The person who is to receive the payment is known as the “creditor”, and the person who is to make the payment is called the “debtor”.

CREDIT REQUIREMENTS

The amount of credit an individual obtains depends upon his ability to demonstrate to the creditor that the obligation will be repaid. The basic requirements are:

- A. Character.** The debtor must engender a trust in the creditor to the extent that there is confidence that the debt will be paid. The creditor does not want the expense or embarrassment of policing a loss. It is costly for the creditor to have to employ collection agencies. Therefore, he extends credit to people whom he considers reliable and in whom he can put his faith and confidence. He knows too well that character is like a rifle: it cannot shoot higher than it is aimed.
- B. Capacity.** The debtor must show a sufficient earning capacity to indicate that he is capable of paying a debt.
- C. Collateral.** Sometimes the creditor requires that some article of worth be offered as a form of security.

These basic requirements are sometimes referred to as the “three C’s of Credit”.

CLASSES OF CREDIT

There is a tremendous variety of credit. It will suffice here to consider credit from the point of view of various users.

A. Public Credit

Public credit is the power possessed by a federal, provincial, or municipal government to obtain goods in the present with a promise to pay in the future. This power generally rests upon the ability and the willingness of the government to pay, which in turn depends ultimately upon its taxing power. Sometimes government activities require bor-

rowing of money. A government may wish to build a canal or highway; or in times of emergency it may be obliged to spend enormous sums of money. Such huge outlay cannot be obtained immediately by taxation — it would have to be recovered from taxes spread out over a number of years. So the government finds it expedient to borrow money from various sources. One source is its own citizens; it borrows from them and pays them interest on the loan. This type of loan is known as a bond or debenture.

B. Private Credit

Private credit is that used by private individuals, enterprises, and organizations. The last would include institutions such as churches, hospitals, and labour unions. For our purposes we may divide private credit into two categories: that used by businesses and organizations, and that used by consumers.

1. BUSINESSES AND ORGANIZATIONS

Business enterprises and private organizations make use of three kinds of credit:

- (a) *Investment credit* is used to obtain fixed assets — that is, capital in the form of buildings and machinery that will be comparatively permanent.
- (b) *Mercantile credit* is used to obtain temporary working capital. When a retailer buys from a wholesaler or manufacturer, he is generally using this type of credit.
- (c) *Banking credit* provides actual cash, which a businessman uses as a temporary measure to meet immediate needs.

2. CONSUMER CREDIT

This type of credit enables people to purchase goods and services that they enjoy and use in their daily lives. It is made available to the borrower on the basis that he is willing and able to make repayment. When people buy automobiles, furniture, food, or beverages, or obtain services such as medical aid, car repairs, or dry cleaning on the basis that they will pay for these goods and services at a future time, they are using consumer credit.

Consumer credit may be divided into two main categories: purchase credit or credit buying, and loan credit or cash borrowing. It is on these types of consumer credit that emphasis will be placed in this chapter because almost everyone uses them at one time or another. Consumer credit is an important and established element in the Canadian economy. It is sometimes condemned and sometimes praised; but as it is such an important part of our economy, consumers should understand it fully.

KINDS OF CONSUMER CREDIT

A. Purchase Credit (Credit Buying)

The consumer uses this kind of credit to acquire goods from retail stores, and to obtain services from professional men and service establishments. Usually the transactions are comparatively small. There are at least three different ways in which consumers use purchase credit. Each of these should be understood so that the most appropriate way may be chosen in a given situation.

1. THE CHARGE ACCOUNT

This type of account begins with an agreement that a buyer of goods will pay for these goods on the receipt of a bill or within thirty days of the date of the bill. This type of credit is not new; it is as old as the hills. In the pioneer days of our country, the local merchant became the creditor. He provided groceries and supplies to farmers and other people and was usually paid at the end of the month or at the end of a season. Many people still buy groceries on this basis. It is probably more convenient to "buy" goods at various times during the month and then pay the merchant with a cheque at the end of the month. Most of these agreements are not signed instruments but informally made arrangements. Although title of goods passes directly to the customer when the article is delivered, the buyer still has a moral as well as a legal obligation to pay.

People also make use of this kind of credit to obtain services. When they use their telephones, their lights, their gas-burning stoves, they do not pay a cent until they get their bills at the end of the month. The services of doctors, dentists, and hospitals are often obtained through the use of charge accounts.

2. THE INSTALMENT SALE ACCOUNT

It has been said that having an account like this is a condition that makes the months shorter and the years longer! This type of account does, however, make it possible to purchase an article and to pay for it in equal bi-weekly or monthly instalments. The history of instalment sales finance coincides roughly with the history of the automobile industry. People couldn't pay cash, and banks were in the beginning unwilling to provide financing for automobiles. In 1919 the first finance company was established in Canada.

This kind of account usually runs from four months to two years, but could cover longer or shorter periods of time. On instalment purchases a written contract is made in which title to the articles purchased remains with the seller until the last payment is made. If a

Form N.O. 250-10M-R-63

MARSHALL WELLS OF CANADA LIMITED
CONDITIONAL SALES CONTRACT

CONTRACT No.

P CUSTOMER'S
N NAME FIRST INITIAL LAST DATE
T RESIDENCE
F ADDRESS STREET OR RURAL ROUTE CITY OR TOWN PROV. PHONE
TO MARSHALL WELLS DEALER STORE NO. CITY OR TOWN PROV. SELLER:

THIS CONTRACT
EXECUTED IN
TRIPLICATE

I HEREBY PURCHASE THE FOLLOWING MERCHANDISE FROM YOU UPON THE TERMS SET FORTH BELOW:

NO. TYPE	DESCRIPTION	SHOW X IF USED	MODEL NUMBER	SERIAL NUMBER	CASH SALE PRICE

ALLOWANCE OF \$
ACCEPTED IN TRADE

MADE ON FOLLOWING DESCRIBED ARTICLES

TIME PRICE \$
(CASH PRICE PLUS FINANCE CHARGE)

Tax

Total Cash Price

Less Trade-In

Merchandise

Cash Price Minus

Trade-In

Less Cash

Down Payment

Cash Price

Balance

Plus Finance Charge

on Cash Price Balance

Balance This Sale

Old Balance

New Balance

I agree to pay the Seller at the store where purchased, or at the office of Marshall Wells of Canada Limited, monthly instalments of \$_____ and a final instalment of \$_____
payable on the _____ day of each consecutive month hereafter commencing _____ 19____.

Until all payments have been made, I agree that: You or Assigns shall retain title to and right of possession of said merchandise; I will be responsible for its loss or damage; I will not remove this merchandise from my present address, nor sell, encumber or dispose of the same without your written consent; and if I default in the payment of any instalment or breach any covenant herein contained, the entire balance shall be immediately due and payable and You or Assigns may then at your option take back the merchandise and resell the same and I will pay you promptly any deficiency remaining after said goods have been disposed of or you may retain the said goods and all payments received thereon as rental. If this sale is consolidated with my existing time payment plan account, I agree that this contract is supplemental to and made part of my previous contract. The title to the goods described in the previous contract, together with those described in this contract shall remain in You or Assigns until all goods so described have been fully paid for.

NOTICE TO THE BUYER: 1. Do not sign this contract before you read it or if it contains any blank space. 2. You are entitled to a completely filled in copy of this contract when you sign it. 3. You have the right to pay off in advance, the full amount due and to obtain a partial refund of the finance charge.

EXECUTED THIS _____ DAY OF _____, 19____, I HEREBY ACKNOWLEDGE RECEIPT OF A TRUE EXECUTED COPY OF THIS CONTRACT AT THE TIME OF THE EXECUTION HEREOF.

CONDITIONAL SALES CONTRACT

THIS CONTRACT
IS SUBJECT TO
CREDIT APPROVAL

WITNESS: _____ SIGNED _____

SALESMAN _____ SIGNED _____ BUYER _____

PURCHASER'S STATEMENT: (IF NEW CONTRACT, COMPLETE IN ENTIRETY. IF AN ADD-ON SUPPLY INFORMATION FOR THOSE ITEMS IN BOLD FACE TYPE.)

ADDRESS (IF RURAL, GIVE LOCATION DIRECTION)

DO YOU: OWN YOUR HOME ☐ RENT ☐ BOARD ☐ MONTHLY RENT OR HOME PAYMENT \$_____ CAR LICENCE _____ HOW LONG AT PRESENT ADDRESS _____

NAME AND ADDRESS OF LANDLORD _____ HOW LONG _____

FORMER ADDRESSES: 1. _____ HOW LONG _____

(IF LESS THAN 2 YEARS AT PRESENT ADDRESS) 2. _____ HOW LONG _____

AGE _____ WIDOW ☐ PENSIONER ☐ SINGLE ☐ MARRIED ☐ WIFE'S FIRST NAME _____ NO. DEPENDENT CHILDREN _____

EMPLOYER: ADDRESS _____ HOW LONG _____

OCCUPATION _____ SALARY _____ WEEKLY ☐ MONTHLY ☐

FORMER EMPLOYER (IF LESS THAN 1 YEAR WITH PRESENT EMPLOYER) _____ HOW LONG _____

WIFE WORK? NO ☐ YES ☐ EMPLOYER _____ HOW LONG _____ WEEKLY EARNINGS \$ _____

IF FARMER, HOW LARGE IS YOUR FARM? _____ ACRES. NUMBER OF HEAD OF LIVESTOCK _____ AVERAGE ANNUAL INCOME \$ _____

AMOUNT AND SOURCE OF OTHER INCOME _____

TOTAL MONTHLY PAYMENTS EXCLUDING HOUSE PAYMENTS \$ _____

NAME AND ADDRESS OF BANK _____ CHECKING ☐ SAVINGS ☐PREVIOUS ACCOUNT WITH US? NO ☐ YES ☐ HOW LONG AGO _____ CONTRACT NUMBER _____ OPEN ☐ CLOSED ☐

NEAREST RELATIVE NOT LIVING WITH YOU NAME _____ STREET ADDRESS _____ CITY OR TOWN _____ RELATIONSHIP _____ PROV. _____

FILL IN THESE ADDITIONAL SPACES ON PURCHASES OF INSULATION, ROOFING, FURNACES, OR OTHER MERCHANDISE TO BE ATTACHED TO PROPERTY

DEFINITE LOCATION OF PROPERTY LOT _____ PLAN _____ BLOCK _____ COST OF PROPERTY _____ AMOUNT OWED ON PROPERTY _____ DATE PURCHASED _____

WHERE MATERIAL IS TO BE INSTALLED No. _____ No. _____ No. _____

NAME AND ADDRESS OF PERSON HOLDING LEGAL TITLE _____

NAME AND ADDRESS OF MORTGAGE HOLDER _____

NAMES AND ADDRESSES OF BUSINESS REFERENCES 1. _____

WITH WHOM YOU HAVE HAD CREDIT DEALINGS. 2. _____

3. _____

STORE No. _____ PURCHASER _____ PRINT NAME OF PURCHASER _____

COMPLETE IF ADD-ON

DATE OPENED _____

PREVIOUS HIGH CREDIT _____

PREVIOUS MONTHLY PAYMENT _____

HOW PAID _____

(See page 8 for the reverse side of this form.)

CREDIT INVESTIGATION REPORT

INFORMATION RECEIVED FROM EMPLOYER	HOW LONG EMPLOYED AT PRESENT POSITION?	WEEKLY INCOME?	STEADY?	TEMPORARY?	FULL TIME?	PART TIME?	HOW PAID PROMPT? SLOW?
CREDIT RECORD AND PAYING HABITS OF CHARGE AND INSTALMENT CREDIT DEALINGS WITH OTHER BUSINESS FIRMS	NAMES OF CREDIT REFERENCES AND CREDIT BUREAU FILE INFORMATION	DATE ACCOUNT OPENED	HIGHEST CREDIT EXTENDED	PRESENT BALANCE OWING	AMOUNT PAID DUE	TERMS OF SALE	
INFORMATION RECEIVED FROM LANDLORD	HOW LONG AT THIS ADDRESS?		AMOUNT OF RENT \$		PAYING HABITS		
INFORMATION RECEIVED FROM BANK	CHECKING ACCOUNT ☐	BANKER'S OPINION AND COMMENTS					
CUSTOMER'S OTHER OPEN OR PREVIOUS CONTRACT WITH US - IN DETAIL	CONTRACT NO.	STORE WHERE PURCHASED	DATE OPENED	HIGHEST BALANCE	PRESENT BALANCE	AMOUNT OF NO. PAYMENT	DATE* CLOSED
VERIFIED PROPERTY INFORMATION	CHECK AND ANSWER THESE QUESTIONS IF NONE. WILL BE ATTACHED TO PROPERTY, SUCH AS INSULATION, ROOFING, FURNACES, ETC.	AMOUNT OWING ON PROPERTY \$	AMOUNT PAYMENTS \$	ARE PAYMENTS UP TO DATE?	TAXES PAID TO DATE		
		THIS INFORMATION OBTAINED FROM _____					

IMPORTANT:
 THIS REPORT, EXCEPT FOR GENERAL REMARKS, MUST CONTAIN ONLY INFORMATION OBTAINED THROUGH CREDIT INVESTIGATION.

THE INFORMATION ON THIS REPORT HAS BEEN OBTAINED FROM SOURCE CHECKED—NOT FROM CUSTOMER

☐ DIRECT TELEPHONE CALLS OR CREDIT INQUIRY LETTERS TO CREDIT REFERENCES, BANKS, LANDLORD, AND EMPLOYER.

☐ LOCAL CREDIT BUREAU.

IF YOUR LOCAL CREDIT BUREAU FURNISHES A TYPEWRITTEN REPORT AT NO ADDITIONAL COST, THIS FORM NEED NOT BE USED.

GENERAL REMARKS _____

SIGNED _____ DATE _____

*IF OPEN; ARE PAYMENTS UP TO DATE?

CHECK LIST FOR ACCURACY

✓
EACH
LINE

Total price of items added correctly.....

Total cash price entered correctly at top.....

Amount of cash down payment O.K.....

Finance charge O.K.....

Additions and subtractions O.K.....

Terms correct and equal contract balance price.....

Trade-in merchandise priced and described.....

Previous contract balance O.K. on add-on.....

Contract signed by purchaser.....

Contract date at top, customer's name and address printed plainly and Store No. and Location entered at top.....

Contract assigned? (DEALER STORES ONLY).....

BE SURE TO CHECK THIS CONTRACT AGAINST EACH OF THE ABOVE POINTS BEFORE FORWARDING.

CHECKED BY _____ Signed _____

AFFIDAVIT OF BONA FIDE

CANADA (I)
 Province (of the)
 of (in the Province of)
 make oath and say as follows:

To Wit:

1. That I am the duly authorized agent of the Seller or Bailor of the goods, described in the within contract and have a personal knowledge of the matters herein deposed to.
2. That the annexed copy of contract is a true and correct copy of the contract of which it purports to be a copy and that the annexed contract truly sets forth the agreement entered into between the parties thereto.
3. That the said agreement was entered into bona fide and not for the purpose of protecting the goods mentioned therein against the creditors of the buyer or bailee.
4. SWORN Before me at in the Province of this day of A.D. 19

A Commissioner for Oaths
 in and for the Province of _____

BRANCH STORE MANAGERS ONLY

DATE _____ 196 _____

BY _____ MANAGER

DEALER STORES COMPLETE ASSIGNMENT BELOW

DEALER STORE ASSIGNMENT For value received with recourse, the undersigned, pursuant to its, his or their contract with Marshall Wells of Canada Limited, hereby assigns and transfers the within contract and all right and title in and to the property therein described to said company, and for the purpose of inducing said company to purchase the within contract, represents and warrants that the statements contained therein and the customer's statement attached thereto are true.

Authorized Dealer No. _____

By _____ (Owner or Partner)

(See page 7 for the front side of this form.)

student contracted to purchase a transistor radio on weekly instalments, the agreement might involve the following:

Purchase price	\$58.00
Terms: nothing down	
Finance charge	2.00
10 weekly payments @ \$6.00	<u>\$60.00</u>

It is very important for the purchaser to read carefully the contract he is about to sign, for it will tell exactly what commitment each party has. Once a signature is made on a contract, it means that the signer has agreed to all its terms and provisions and is therefore legally bound by it.

3. THE REVOLVING ACCOUNT

This type of account makes it possible for a person to make purchases each month up to an agreed amount, paying a certain amount or percentage of the balance each month plus carrying charges. This form of credit started in department stores and other large retail stores in the middle of the 1930s and is quite widespread today, with slight variations. A customer, for example, might make an agreement such as this:

Credit limit	\$200
Agreement: pay store 1/10	
each month	\$ 20

The customer in such an instance is able to purchase at any time as long as his total obligation is not greater than \$200. When the customer buys an article, the sales clerk checks his "open to buy" position. If there are charges against his account equal to \$125 he is "open to buy" articles worth up to \$75. The customer is billed each month and a credit service charge is added, based on the amount actually outstanding.

B. Loan Credit (Cash Borrowing)

This type of credit enables individuals to meet unforeseen costs. When sudden sickness or business disasters hit, or when simple cash is required to overcome an immediate problem, a loan is often required. These loans can be obtained by borrowing cash directly from lending agencies such as banks, finance companies, credit unions, mutual savings banks, and pawnbrokers. The principal types of cash loans, whatever their source, generally fall into the following categories:

1. SINGLE PAYMENT LOAN

This kind of loan parallels the open charge account of retailing in that a person borrows money for a period of time (usually 30, 60, 90,

or 120 days) and agrees to pay it back with interest in one lump sum. Unlike the charge account, the loan requires a signed note which is due exactly on the date specified, as contrasted with the leeway (usually 12 to 15 days) allowed for a charge account. Most commercial banks provide this type of loan. If a person borrowed \$1,000 at 6% interest for one year, at the end of the year the borrower would pay back the \$1,000 plus \$60 interest — a total of \$1,060 — all in one lump sum.

2. INSTALMENT LOAN ACCOUNT

This kind of loan parallels the instalment sales account. In this case, money is borrowed and paid back in equal monthly, bi-weekly, or weekly instalments. In other words, if a person borrowed \$1,500 at 5% interest, the \$1,500 plus the interest of \$75 would be split into equal instalments. There are a variety of ways of working out this interest, as will be discussed later in the chapter.

3. REVOLVING LOAN

This kind of loan parallels the revolving credit plan except that instead of obtaining goods on the revolving basis, one receives money. A maximum is set on the loan, for example \$500. The debtor can borrow up to that amount at any time and agrees to repay the money either in a fixed fraction monthly ($1/5$, $1/10$, $1/20$ of the total "limit" arranged), regardless of the amount he owes at any time, or a percentage such as 20% or 25% of the balance outstanding at the end of each month. He may continue to borrow at all times as long as his total obligation remains within the limit agreed upon.

ELEMENTS THAT DETERMINE WHETHER TO USE CASH OR CREDIT

Compared to that of other generations, the standard of living in Canada today is almost unbelievably high. It is really an age in which luxuries reign supreme. The luxuries of yesterday have come to be looked upon as necessities today. A statistician recently calculated that a hundred years ago the average person had 72 wants, 16 of which were considered necessities. Today, the statistician maintains, the average person has 464 wants, of which 94 are classed as necessities.

There appears to be an almost unlimited number of products on the market. The average consumer has the problem not only of choosing which articles among many to buy, but also of choosing between payment by cash or credit. Probably no authority can say which is the right and better way of paying for goods. What is good for one individual may not be good for another. The method chosen depends

Form CU 5

LOAN NO.

APPLICATION FOR LOAN

BOOK NO.

DATE:

SAVINGS & CREDIT UNION LIMITED.

I, ... having been a member of this
Credit Union since do hereby apply for a loan of \$.....

DOLLARS for a period of

months. My present loan balance is \$..... Amount of cash required is \$.....

As a member is expected to add regularly to his share capital even while repaying his loan, I agree to repay this loan
by paying \$..... monthly, semi-monthly, weekly, \$..... to the loan, balance to interest and
shares, the interest to be at the rate of per cent per month/annum, on unpaid balance of the said loan, and
the payments to be made at the Credit Union Office.

PURPOSE OF LOAN

I desire this loan for the following provident, productive or merchandising purpose:

SECURITY OFFERED

() Member's Share Capital \$..... () Deposits \$.....
() Wife's or husband's Share Capital () Renewal
() C.M. on Car \$..... () Deposits
(List year, make and style)

Serial No.

() C.M. on Household Effects—List Attached () Serial No. Required ()
() Property Title, and Hypothecation thereof. List Required () Renewal ()
() Wife's signature required on Application.
() Co-maker (See particulars on back hereof).

Other Collateral or conditions

(These goods, which I have offered as security, are free of all liens and/or other encumbrances.)

Other Indebtedness

Are you now a borrower (a guarantor) from another Credit Union or from a Finance Company, Bank or other source?
Particulars hereunder:

Particulars of Applicant

Employed by Address of Firm

Occupation Length of Service

Salary - Income Other Income

Are you permanently or temporarily employed

Amount of Life Insurance carried Age

Beneficiaries Married/Single

Address of Beneficiaries No. of

Dependents

If tenant - monthly rental \$..... If home-owner, assessed value of property \$.....

Is property mortgaged? Amount \$..... Fire Insurance \$.....

Are you paying board and room? Amount per month \$.....

Landlord's name and address:

I declare that all statements made by me in this application are, to the best of my knowledge, true.

Address of Applicant

Phone

Signature of Applicant ★

Address of Co-maker

Phone

Signature of Co-maker ★

(See page 12 for the reverse side of this form.)

Personal References

(Relatives, friends, business acquaintances)

Name Relation to member
 Address Occupation
 Telephone No.
 Name Relation to member
 Address Occupation
 Telephone No.

Particulars of Co-Maker

Name in Full Address
 Wife's or Husband's Name
 Employer Years of service of co-maker
 Position Salary per month
 Other details

MINUTES OF THE CREDIT COMMITTEE

At a meeting of the Committee held on, 19..... Loan Application
 No. of was considered, and it was unanimously decided by
 the members present to *..... the said application in the amount of \$ subject to
 the conditions therein proposed, or to the following conditions:

* Insert the word, **grant**, **refuse** or **reconsider**, according to the decision of the Credit Committee.

.....

.....
 Credit Committee (and Officers)

Loan required by 19..... Loan issued 19.....

Cheque No. Date:, 19.....

.....
 Secretary-Treasurer

ADDITIONAL MEMORANDA

(See page 11 for the front side of this form.)

on one's own circumstances and conditions. However, in order to make the best use of their dollars, and in order to obtain the most appropriate service, consumers should be acquainted with the basic methods of buying. These are three: customers can obtain their goods through purchase credit plans; they can save their money and pay cash for them; they can borrow money and then pay cash for their goods. Each of these methods has its good and bad points.

The Case for Credit

Using credit, whether it be through a charge account, instalment purchase, or revolving credit plan, has certain advantages:

1. **IMMEDIATE USE.** Credit purchasing makes it possible for people to have the immediate use of things they need or desire. The purchase of a new furnace early in October and paid for during the winter months may keep a whole family comfortable for many winters to come. This kind of purchase makes it possible for people to use and enjoy an article while paying for it.
2. **CONVENIENCE.** It is very convenient to have an arrangement for credit purchase in more than one store or company. The housewife finds it easy to phone in an order to a grocery store and pay for it later. The bread-winner finds it convenient to pay his medical, dental, and utility bills at the end of the month.
3. **TIME SAVER.** Buying "on time" makes it possible to acquire household appliances, such as washing-machines and vacuum cleaners, that not only relieve household drudgery but also save time. Time has a value in itself. It has been said that "Yesterday is a cancelled cheque. Tomorrow is a promissory note. Today is the only cash you have — spend it wisely."
4. **PRICE REGULATOR.** Using credit to purchase articles makes it possible for people to buy more goods than they might otherwise. This increased demand makes mass production, mass distribution, and mass consumption possible. It is frequently claimed that this in turn leads to lower prices and increased employment.

However, the use of credit is by no means totally advantageous. Credit also has its disadvantages:

1. **EXPENSIVE.** Goods are more expensive when purchased through the use of credit because the seller has more expenses than he otherwise would have. There are books to be kept, bills to be sent out, accounts to be collected. All of these items are costly and have to be paid for in some way; higher prices for the consumer are usually the result. Even though credit makes mass production possible (which in turn tends to lower prices), the cost of credit tends to offset that advantage.

Form C.U.-6

PROMISSORY NOTE

\$

Book No.

Note No.

Due Date:

....., Alberta, ... 19

For value received, I promise to pay to the order of Savings and Credit Union Limited,
 at its office at the sum of dollars,
 payable in (Weekly, Semi-Monthly) Instalments of dollars
 (Monthly)

each, with interest on unpaid balances at the rate of per cent per month (which is equivalent to a rate of
 per cent per annum), as well after as before maturity, the first payment to be made on
 and a like amount thereafter until the full amount has been paid.

.....

.....

AGREEMENT

Date:, 19.....

1. In consideration of the loan, referred to in the promissory note hereto attached, made to me by
Savings and Credit Union Limited, it is mutually understood and agreed that default in the payment of any of the instalments referred to therein, or any part thereof, shall, at the option of the holder of the said note, immediately make due and payable the total amount remaining unpaid on the said note, and the said Credit Union may make such disposition of any collateral pledged as it finds necessary or advisable, including the sale thereof and the application of the proceeds on the said loan.
2. I hereby pledge all paid shares, payments on shares, and deposits which I now have or hereafter may have in the said Credit Union as security for the said note and any costs or expenses which may be imposed or incurred in connection with the collection thereof; and for default in the payment of any of the instalments referred to therein, or any part thereof, I hereby authorize the said Credit Union to apply any or all such paid shares, payments on shares, and deposits to the payment of the said note and of any costs or expenses incurred in the collection thereof.
3. In the event that I should fail to repay the said loan when due or fail to make payment of any instalment in accordance with the terms of repayment set out in the said note or fail to pay all charges authorized by this agreement, or if I should become subject to or take advantage of any law relating to bankruptcy or insolvency or for the relief of debtors, or if I should cease to reside in the Province of Alberta, then in any such case the said Credit Union may, at its option declare the said loan to be due and payable, and the said loan shall thereupon become due and payable without demand or notice to me.
4. It is further agreed that in the event that payment of the said note is not made in full at maturity, I shall pay the costs of collection and solicitors' fees.

Signature

2. **COMPULSIVE BUYING.** Sometimes it is too easy for the individual to buy things. When one has a credit account at a store, it is so easy for him to say "Charge it". People will often buy carelessly, purchasing articles without seeing them, without examining their quality or usefulness, or without being really sure whether they want the article or not. Having purchased the article, they may discover that they have acted foolishly and are deeply in debt. When they are unable to meet the payments, they discover that debt is the only thing that doesn't become smaller when it is contracted.

3. **PREVENTS VARIETY.** Although a buyer is able to investigate before choosing the form of credit he wants, once he has decided he is more or less compelled to deal with one firm. If an individual, for example, opens a charge account at a grocery store, he will buy most, if not all, of his groceries there. This tends to prevent the consumer from "shopping around".

The Case for Cash

Advantages:

1. **LESS EXPENSIVE.** Articles can be purchased less expensively than with credit because the cost of credit is now eliminated. Chain stores can sell goods at reduced prices because they operate on a cash basis. Usually a house can be purchased more cheaply when cash can be paid than when a real-estate mortgage is involved.

2. **PROMOTES THRIFT.** The individual tends to become a more careful buyer. He seems to be more concerned about upsetting his budget arrangement than the person who buys on credit. Also, he is forced to become thrifty in order to save the money required for the desired article.

3. **PROVIDES SECURITY.** If the consumer is saving his money to pay cash, he knows that in the event of an emergency or some unforeseen difficulty he will have this cash to fall back on and he will not be burdened by payments.

4. **PSYCHOLOGICAL FREEDOM.** It tends to keep people free from worry. Many social agencies testify that the tensions and anxieties that build up in families who face indebtedness are contributory factors in family breakdowns.

Disadvantages:

1. **TIME CONSUMING.** It takes considerable time to save money and as a result the saver is forced to do without the enjoyment of the desired article for a time.

2. **SAVING DIFFICULTY.** It is often difficult to save cash. People have a tendency at times to spend their savings on articles of lesser value than the desired article, so that they may never obtain what they were originally saving for.

3. **POOR SERVICE.** Often the cash buyer doesn't get as good service as the credit purchaser. The sellers maintain that their best customers are really people who buy on credit because they will return and don't have to be lured in by advertising. The cash customer is an unknown quantity. He has to be attracted to the store by bargains, by advertising, by gimmicks. All of this is expensive.

The Case for Borrowed Cash

It is possible that the individual may choose to borrow cash and then do his buying without opening a credit account. This may appear to be cheaper but it is not always so. It depends to a great extent on the source of the loan and the type of the loan, as will be seen later. If it is cheaper, then the advantages of cash cited above would apply; if it is more expensive, then the advantages of credit previously cited would apply.

It appears that in our Canadian system the consumer has many choices. Out of such a variety of schemes, there surely must be one to fit each individual's needs. It is up to each consumer to educate himself about all possibilities so that he can determine with intelligence not only where to buy, but how to buy in order to get the most goods and services with the income available.

HOW TYPICAL SERVICE CHARGES ARE WORKED OUT

It is obvious that credit is costly. Let us consider the variety of costs that added together amount to the service charge made by stores for extending credit, or the payment charged for borrowed funds.

1. **Insurance.** The creditor may have to pay for a variety of insurances. There may be insurance against damage to the product, or against the possibility of its injuring a person or property while it is in use, as with an automobile.
2. **Credit Rating.** The creditor must spend time and money finding out about his prospective customers, to learn if they are good or poor credit risks. This is known as the establishment of a credit rating.
3. **Collection.** The creditor has to set aside money for the possible collection of payments. People often suffer illness, temporary financial difficulty, or ordinary forgetfulness. The necessary collection and adjustments that are made are costly.

- 4. Book-keeping and Billing.** Every time the creditor opens a new account, a record has to be kept; a system of billing has to be set up and recorded. This again is costly.

All these costs together add up to a tidy sum. So it is obvious that if credit is extended, the cost of this credit must be included in the credit somewhere. Thus, every time a person obtains credit, he knows immediately that it is going to cost him something. However, credit costs vary. That is why it is important for a consumer to shop around to find the least costly type of credit to fit his basic needs. Each prospective buyer should be familiar with the variation in costs that exists for each type of credit.

HOW CHARGES FOR PURCHASE CREDIT (CREDIT BUYING) ARE WORKED OUT

A. The Charge Account

The customer understands that he is to pay the store when billed, and in the past there was presumably no interest charged on this credit. However, even in this type of account forms have to be filled out, records have to be kept. This added cost has to be included somewhere and it is probably considered as an operating expense, like advertising, delivery service, or rent. Prices charged must cover all these expenses. In the past, as mentioned above, merchants have not commonly added a service charge to this type of account. With the increased cost of goods and services, however, and the higher rate of interest that the merchant must pay in order to borrow money, many merchants are now adding a service charge to those charge accounts that are past due. A creditor may be described as "a man who has a better memory than a debtor"; sometimes customers are lax, lazy, or just plain forgetful about paying their accounts. Not all stores assess the service charge. Of those that do, not all assess the service charge at the same stage of delinquency. Some add it at thirty days past due while others wait sixty to ninety days. Should a firm decide to add a service charge, this requirement should be shown on the application for credit, preferably over the space reserved for the customer's signature.

B. Instalment Sale Accounts

1. **PER CENT PER MONTH.** In many retail stores, the credit service charge is frequently expressed in terms of a charge that is applied to the *original* unpaid balance for each month the payments are to run, often shortened to "1½ per cent per month" or "¾ per cent per month".

Example: A customer buys a suit for \$110, pays \$10 down with the remainder to be paid in ten equal monthly instalments of \$10 each. The

original unpaid balance is \$100 and the store may charge $\frac{1}{2}$ of 1 per cent a month using that unpaid balance (\$100) as a basis for *each* month. That is, he would have to pay $\frac{\frac{1}{2} \times 1}{100} \times 100.00$, or 50 cents a month for 10 months. The cost of this credit would amount to \$5.

2. **FLAT CHARGE.** Sometimes a flat charge is made to cover the cost of credit.

Example: A person buys an overcoat for \$100, pays \$10 down with the remainder to be paid in nine equal instalments of \$10 each. The creditor charges him \$10 for the use of the credit. In this case, then, the total cost to the buyer is \$110 (\$100 for the coat, \$10 for credit).

Whatever method is used, the average consumer likes to know not only the cost of credit expressed in dollars (as in the above two examples) but also in per cent. On a yearly basis, what per cent do the \$5 (in first example) and the \$10 (in second example) represent? This is known as the *annual rate* of interest charged on credit transactions. Two simple formulae for working this rate out may be used, one in which weekly payments are involved, and one in which monthly payments are involved. These give approximate annual rates of interest on credit.

FORMULA FOR WEEKLY PAYMENTS*

$$\text{Annual rate} = \frac{104 \times c}{p \times (m+1)}$$

104 is a constant

c = total credit charge (finance charge)

p = original credit extended

m = number of instalment payments to pay off obligation

Example: A suit is purchased using instalment credit.

Purchase price \$110.00

Terms \$10 down 10.00

Total credit extended . . . 100.00

Finance charge 10.00

11 weekly payments @
\$10.00 \$110.00

$$\text{Annual rate} = \frac{104 \times 10}{100 \times (11 + 1)} = \frac{1,040}{1,200} \times 100 = 87\%$$

*From "Facts You Should Know about Borrowing", Better Business Bureau publication, pp. 6-7.

FORMULA FOR MONTHLY PAYMENTS

$$\text{Annual rate} = \frac{24 \times c}{p \times (m + 1)}$$

24 is a constant

c = total credit charge (finance charge)

p = original credit extended

m = number of instalment payments to pay off obligation

Example: A car is purchased using instalment credit.

Purchase price \$3,000.00

Insurance charge

(included in contract) 200.00

Total for above 3,200.00

Terms: \$600.00 down

Trade-in: \$800.00 . . . -1,400.00

Total credit extended 1,800.00

Finance charge 400.00

40 monthly payments

@ \$55.00 \$2,200.00

$$\text{Annual rate} = \frac{24 \times 400}{1,800 \times (40 + 1)} = \frac{9,600}{73,800} \times 100 = 13\%$$

If a consumer wants to save money on instalment purchases, especially when the rate is based on the *original* amount owed, he should understand the following points:

1. Shorten the term of payment as much as possible on a monthly payment plan; the borrower pays the same finance charge every month since the charge is computed on the original amount owed.

*Example:** Based on \$2,200 credit extended and an annual finance charge of \$7 per \$100:

36 monthly payments

Finance charge is \$462

24 monthly payments

Finance charge is \$308

Difference between the finance charges on the two contracts is \$154.

2. It is economical to make as large a down payment and as large monthly payments as possible.

3. The contract may have a clause providing for rebates in case payments are made in advance.

4. Payments should be made promptly because defaults may

(a) result in a demand for full payment at once;

(b) add extra costs because of delinquency charges;

(c) lead to repossession.

C. Revolving Account

The credit charges in this plan are usually quoted as a per cent per month of the actual remaining unpaid balance at the end of the month.

*From "Finance Charges Are Not Interest", Better Business Bureau publication, p. 4.

HOW CHARGES FOR LOAN CREDIT (CASH BORROWING) ARE WORKED OUT

A. Single Payment Loans

The interest on this type of loan is usually stated as a per cent per annum (year). To calculate the amount of interest, multiply the original amount owed (the principal), by the rate of interest, by the time in years.

Example: A loan of \$200 that is payable at the end of 6 months in one lump sum at 6 per cent per annum would cost

$$\$200 \times \frac{6}{100} \times \frac{6}{12}, \text{ or } \$200 \times .06 \times \frac{6}{12}$$

which would be \$6.

Single payment loans are generally made for short maturities, for example 30, 60, or 90 days. Such loans may be renewed one or more times in cases where this is necessary and desirable. The credit ratings of a few consumers are such that they can obtain these loans on an unsecured basis (without collateral), while some other consumers can get such loans on a secured basis (with collateral); but the overwhelming majority of consumers are unable to qualify for these loans. Consequently, lending institutions make most of their consumer loans on an instalment repayment basis.

B. Instalment Loans

These enable the consumer to obtain cash and repay both it and the financing charge in instalments spread over many months or even several years. Such loans may be secured or unsecured.

1. THE ADD-ON. A bank may offer a loan at the cost of \$6 per \$100, adding the interest charge immediately to the principal, which is then repaid in twelve monthly instalments. This sounds like 6% annual interest. Actually, it is approximately 11%.

Example: A person borrows \$100 at 6%. The first month, the interest is $\$100 \times .06 \times 1/12 = \$50$. The interest for the next twelve months is $12 \times .50 = \$6$. Therefore each month's interest is based on the original loan or unpaid balance of \$100, instead of on the current unpaid balance. If it were based on the latter, the next month the interest would have been $\$90 \times .06 \times 1/12 = \$45$, the following month it would have been $\$80 \times .06 \times 1/12 = \$40$, and so forth.

What is the annual rate of interest using the add-on method? If we apply the formula for monthly payments, it is:

$$\frac{24 \times 6}{100 \times (12 + 1)} = \frac{144}{1,300} \times 100 = 11.1\%$$

2. **THE DISCOUNT.** Some lending institutions deduct their charges in advance. In this case, the interest charge of \$6 per \$100 is deducted when the loan is made, so that the borrower receives \$94. The amount of the annual rate of interest runs slightly higher with the discount method than with the add-on method.

Example:

$$\frac{24 \times 6}{94 \times (12 + 1)} = \frac{144}{1,222} \times 100 = 11.8\%$$

3. **UNPAID BALANCE.** With this type of loan, the money is repayable in monthly instalments that may run for various periods of time. Also, borrowers may repay the loans in a shorter period of time than agreed upon; the charge is based only on the time the money has been used. The amount of the loan is the sum the borrower actually receives. The cost is figured each month upon the amount of the loan that is remaining at that time.

Example: If a person were to borrow \$100 and the cost of interest was quoted at 2% per month on unpaid balances, the following would illustrate the cost of the loan, if the borrower were to pay each month \$10 on the principal plus the interest on the unpaid balance.

Month	Loan and unpaid balance	Cost	Amount paid on the principal
1	\$100.00	\$2.00	\$10.00
2	90.00	1.80	10.00
3	80.00	1.60	10.00
4	70.00	1.40	10.00
5	60.00	1.20	10.00
6	50.00	1.00	10.00
7	40.00	.80	10.00
8	30.00	.60	10.00
9	20.00	.40	10.00
10	10.00	.20	10.00
		Total \$11.00	\$100.00

The annual rate of interest in this case is about 24%:

$$\frac{24 \times 11}{100 \times (10 + 1)} = \frac{264}{1,100} \times 100 = 24\%$$

If the loan had been paid off completely at the end of the first month, the total charge for the use of the \$100 would have been \$2.

C. Revolving Loans

Credit charges are usually quoted as a per cent per month on the actual remaining unpaid balance at the end of the month.

The practice of lending money at a higher rate than the lawful rate is called usury. Usury in one form or another has been practised or attempted all through the ages. A prominent English writer named Joseph Addison once defined a usurer as "a money lender who serves in the present tense; he lends you in the conditional mood; keeps you in the subjunctive; and ruins you in the future!" Historically, it has been considered that a fair annual rate of interest on a loan is 6%. When credit became more readily available at the beginning of this century, ethical lenders tried to hold to this rate; but in our modern credit system, the idea of a six per cent credit charge is really non-existent and borrowers should be aware of it. For small amounts, the expenses involved in extending credit are so high that a charge of 12 per cent per year is no longer considered unreasonable. The customer, however, should know exactly how much he is paying.

Small cash loans may be obtained from the following sources:

1. **BANKS.** The amount of money that may be borrowed varies among banks. The average loan is less than \$500, but loans greater than \$1,000 are often made. These loans are usually repaid in regular monthly instalments over a period of a year. The rate of interest varies with the size of the loan. Loans are made for personal and business requirements, including the purchase of household articles or automobiles.
2. **SMALL-LOAN COMPANIES.** Consumer finance companies make loans in varying amounts. Such loans are to a great extent based on the signature of the borrower or on the security of the borrower's furniture. In some cases, an assignment of wages is required. Loans made by these companies generally are repayable in monthly instalments and run for various periods of time.
3. **CREDIT UNIONS.** These institutions are co-operative in structure and will be described in more detail later. They provide loans in the \$50 to \$300 range. The interest rate is usually figured out at 1% per month on unpaid balances.
4. **LOANS ON LIFE INSURANCE.** Most life insurance policies have a "loan value", meaning an amount of money that the insured person may borrow on his policy. The total amount that can be borrowed depends upon the size and type of the policy, the age of the insured when the policy was issued, and the number of years the policy has been in existence.

Cash loans may be obtained from a variety of sources, depending on the security promised; stocks, bonds, and real estate, for example, may be used as collateral. However, before borrowing money from any source you should be careful to keep the following points in mind:

1. Never sign papers "blind"; that is, before you put your signature on any paper you must be sure that all the figures have been entered. Never sign papers in "blank", to be filled in later.
2. You should be certain of exactly how much money you are going to get, how much it is going to cost, and how it is to be paid back.
3. You should be sure that all the obligations are understood. You should also be aware of the rights of the lender, should the loan not be repaid as agreed.
4. Be certain that business is transacted with a reliable firm.

QUESTIONS

1. Would the average person buy more groceries through a charge account than he would if he paid cash? Justify your answer.
2. Would credit cards constitute a form of charge account? Provide reasons for your answer.
3. Which do you think a large department store would prefer from its customers: payment in cash or payment through a revolving credit account? Why?
4. Do retail stores tend to provide better service for cash or credit customers? Why?
5. Spending money on luxuries is justifiable because all people benefit from these expenditures. Do you agree? Discuss.

PROBLEMS

1. (a) What would be the credit charge to an individual who buys a refrigerator for \$340 and pays \$40 down, if the remainder is to be paid in 10 instalments of \$30 each, plus $\frac{1}{2}$ of 1% on the original unpaid balance?
(b) What would the annual rate of credit be for the above transaction if payments are made in equal monthly instalments?
2. Calculate the approximate annual rate of credit for the following transaction: A car is purchased for \$3,500. In addition, there is included in the contract an insurance charge of \$200. The terms are \$800 down with a trade-in allowance of \$900 on an old car. The finance charge on the car is \$300. The purchaser agrees to pay on the basis of 23 monthly payments of \$100 each.
3. Calculate the cost of a loan obtained from a bank when the balance payable is \$500 to be paid at the end of 8 months in a single payment at 6%.
4. If a man went to the bank and borrowed \$400 at 6% and agreed to repay it in 10 equal instalments of \$40 each,

- (a) what would be the annual rate of credit if the discount method were used?
 - (b) what would be the annual rate of credit if the add-on method were used?
5. (a) Determine the total cost of a loan of \$600, repaid at the rate of \$100 a month with a credit cost of $2\frac{1}{2}\%$ per month on each month's unpaid balance.
- (b) Calculate the annual rate of credit for this transaction.
 - (c) What would the annual rate have been if the $2\frac{1}{2}\%$ per month had been calculated on the original unpaid balance?
6. Compare the cost of purchasing a new chesterfield priced at \$300 on the following plans. In each case determine the cost of credit in actual dollars and determine the annual rate.
- (a) Paying cash.
 - (b) Making a down payment of \$100 and paying the remainder in 10 equal instalments at $\frac{1}{2}$ of 1% a month on the original unpaid balance.
 - (c) Making a down payment of \$100 and paying the remainder in 10 equal instalments at $\frac{1}{2}$ of 1% a month on each month's unpaid balance.
 - (d) Making a down payment of \$20 and paying the remainder in 28 equal instalments at $\frac{1}{2}$ of 1% a month on the original unpaid balance.
 - (e) Borrowing \$300 from the bank and paying cash for the chesterfield:
 - (i) money to be paid back at 6% in 10 equal instalments using the discount method.
 - (ii) money to be paid back at 6% in 10 equal instalments using the add-on method.



II *Savings*

"The habit of saving is itself an education; it fosters every virtue, teaches self-denial, cultivates the sense of order, trains the forethought, and so broadens the mind."—T. T. MUNGER

Savings, which is basically the difference between income and expenditure, can be quite complex. It may be of three kinds: first it may be planned savings to provide for some definite future purpose; second, it may be money saved to bring an inadequate cash balance up to normal; third, it may be money that is not saved deliberately but just happens to accumulate.

It will suffice here, however, to be concerned with planned savings. Saving in this sense is not haphazard. As Mr. Munger implies in the above quotation, planning with wisdom requires considerable thought and sacrifice. In our Canadian system, saving can take a variety of forms; an examination of the basic types is the subject of this chapter.

TYPES OF REAL SAVINGS

A. Liquid Assets

These are saved cash or any security that can easily be converted into cash. Probably the best-known method of achieving this form of savings is that of conscientiously laying aside dollars or cash. It plays a large part in family budgeting and should be encouraged. The method for doing this varies, and the choice made should be based on each family's plans and objectives.

1. CHARTERED BANKS

These operate under the Bank Act in Canada and act as both savings and commercial banks. That is, they serve not only their depositors and their borrowers but also their stockholders. All such banks in Canada are privately owned but function under charters from the

Dominion Government; hence they are known as chartered banks. Each chartered bank has numerous branches and each branch enjoys considerable independence, although all are linked together by a head office. The branch banking system enables banks to open branches in small settlements, thus providing the people of these communities with banking facilities at the same cost as in larger communities.* Although these banks have been laughingly referred to as "institutions where you can borrow money if you can present sufficient evidence to show that you don't need it", they have distinct advantages for the prospective saver.

- (a) They provide a safe place for money.
- (b) They encourage thrift because the banks try to persuade the individual to keep his money in the bank so that the bank can use it.
- (c) They pay an interest charge for the use of the deposit. It usually amounts to 3% per annum, based on the minimum quarterly balance and credited to the account semi-annually.
- (d) The deposit can be withdrawn at any time to meet an unforeseen emergency.

2. SAVINGS BANKS

These banks may accept deposits but may not carry on the usual banking business of chartered banks. Some of the provinces, such as Newfoundland, Ontario, and Alberta, have such banks; in Alberta, the Provincial Treasury Branch receives "Savings deposits and issues [that] demand savings certificates bearing interest at one and one-half per cent, or term certificates for one, two, three, four or five years in denominations of \$25 and upwards, bearing interest at two per cent for one or two years, two and one-quarter per cent for three or four years and two and one-half per cent for five years". In these instances, the depositors are in effect lending their money to their provincial governments. The use of these banks as savings devices has the same advantages as those of chartered banks.

3. POST OFFICE SAVINGS BANK

Established in 1867, this is the oldest savings bank in Canada. Its purpose at that time was "to enlarge the facilities now available for the deposit of small savings, to make the Post Office available for that purpose, and to give the direct security of the Dominion to every depositor for repayment of all money deposited by him together with the interest due thereon".

*The chartered banks of Canada are: Bank of Montreal, Bank of Nova Scotia, Banque Canadienne Nationale, Banque Provinciale du Canada, Canadian Imperial Bank of Commerce, Mercantile Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank.

The limit of deposits that can be made in this bank is \$10,000. Withdrawals may be made at any Savings Post Office, "in even dollars to a maximum of \$100 in any one postal business day, on presentation of pass-books". If more than \$100 is required, a signed application for a cheque is sent to headquarters with the pass-book.

These banks do provide the advantages of safety and strong security, but the interest rates are usually lower than those of regular banks. Moreover, they are not as practical, in that not all post offices handle deposits and withdrawals, and the funds deposited are not as accessible because of the limit placed on withdrawals.

4. CREDIT UNIONS

These have become in the last twenty years increasingly popular for savings. In Canada, there are now over four thousand credit unions with a membership of about one and a half million people.

In this type of institution, groups of people such as employees, church organizations, fraternal societies, or ethnic associations agree to save their money together and to make loans to one another at low interest rates.

Credit unions are in some ways like other finance institutions: they accept savings deposits; they make loans; members have pass-books and can withdraw savings at any time, although some form of notice may be required; and dividends are paid on the share basis. They differ from other financial institutions in these ways: members are required to save small amounts at regular intervals, these savings being called "shares" rather than deposits; savings are counted in units of five-dollar shares; members may withdraw their savings but may not write a cheque on the credit union; and loans are made only to members or shareholders.

These institutions have the advantage of providing for an aggressive program of regular saving, however small, with the fund created becoming a form of collateral to be loaned to members in the form of credit. Thus, in reality, the man using credit borrows from himself.

All of the above avenues are open for the accumulation of savings. Careful planning and budgeting will indicate the course best suited to each individual or family. Savings in any of these forms are known as "liquid assets", meaning that they are readily convertible into cash. Of course it is possible to use one's money in another way, namely investments — these are also liquid assets since they can be converted into cash of varying amounts. Some of the ways by which a person can invest his money are through purchase of insurance, bonds, or stocks, or through investment in mutual funds. In all cases the wise buyer will look into the matter very carefully first. All the relevant facts

DEPOSIT SLIP

WESTERN

SAVINGS AND CREDIT UNION, Limited

Date JUNE 30 Book No. 31Name MR. RON BROWNAddress 4723-51 AVE., MAPLETOWN

Cheques credited only subject to collection.

Folio \$ C.

Share Account 30 00Deposit Account 25 00Loans Account 1 00Interest 3 00Endowment Loans 100 00Entrance Fee 100 00Dues 56 00

Teller's Initials

Total

Deposited by R. Brown

Form C.U. No. 1

In the above deposit, \$30.00 would be deposited to Ron Brown's savings; \$25.00 would be placed in the union's account towards a loan of his; and \$1.00 would go to the credit union, for interest.

WITHDRAWAL/TRANSFER VOUCHER

WESTERN

SAVINGS AND CREDIT UNION LIMITED

Name MR. RON BROWN

MAPLE TOWN Alberta, JUNE 30, 1964

CHARGE MY ACCOUNT AS FOLLOWS:

	Dr.	Cr.
SHARES	100 00	
DEPOSITS		
LOAN		97 00
INTEREST		3 00
CASH		
TOTAL	100 00	100 00

Ron Brown BOOK No. 99
Signature of Member

Cheque No. _____
Treasurer

On this transfer voucher, Ron Brown is transferring \$100.00 from his savings towards a loan he has obtained from the credit union (\$97.00 towards the loan, \$3.00 for interest).

should be obtained, and if the buyer is still not clear about any aspect of the investment, he should seek the advice of someone known to him who is qualified by training, experience, and a reputation for fair dealing to render such service. Generally, reputable banks and the Better Business Bureau can advise investors on the reliability of those engaged in investment, and can likewise provide valuable information regarding new or doubtful companies or concerns.

B. Non-liquid Assets

Sometimes these are referred to as "fixed assets", in that they are more permanent and therefore less liquid — not as easily converted into cash. The most common forms of non-liquid assets that can be classified as real savings are real estate and furnishings.

1. REAL ESTATE

Real estate is considered to be lands and everything attached to them, such as trees, fences, buildings, or the like — all immovable property.

It is true that some people speculate by buying land beyond the city limits, hoping that some day the population may move out to the areas purchased. They have hopes of "buying by the acre and selling by the foot". However, this should only be undertaken by those who have plenty of surplus funds and by those who are prepared to wait for years before rewards can be reaped.

The most common form of real-estate purchase by the average person is his home. Although this is certainly a savings of the non-liquid variety, the question arises: Is the purchase of a home more truly a form of savings than the rental of a home? No doubt this depends upon a variety of things: Has the prospective buyer saved enough money to pay cash for the house, or does he have to obtain credit to buy it? If he has to use credit, what is the source of this credit? Despite the "ifs" and "buts", there might be some value in considering the possible cost of owning a home as compared to renting a home.

Example: Suppose there are two families living in the same neighbourhood. Both families have two sons and one daughter. Each family lives in a house with three bedrooms, one kitchen, one living-dining room, one bathroom. However, one family is buying their house, the other is renting. At the end of twenty-five years, which family has saved more — the renters or the buyers?

<i>The buyers</i>	<i>Cost per year</i>	<i>The renters</i>
1.* Loss of earning on a down payment of \$3,000 at 6%	\$180.00	To rent a house with similar accommodations in a similar neighbour- hood might cost about \$120 per month, or \$1,440 per year.
2.† Interest payments on \$9,000 mortgage at 6%	540.00	
3. Taxes	360.00	
4. Insurance	15.00	
5. Fuel	200.00	‡
6. Repair and maintenance	100.00	
Total	<u>\$1,395.00</u>	
	<i>Cost for 25 years</i>	
\$1,395 per year for 25 years	34,875.00	\$120 per month for 12 months a year for 25 years is \$36,000.
Principal paid in 25 years	<u>12,000.00</u>	
Total	<u>\$46,875.00</u>	

According to the above example, the renter has \$10,875 that the buyer has not. However, the buyer has a house. If the house at the end of 25 years is worth \$10,875, then the two have come out even. If the house is worth more, the buyer is ahead; if it is worth less, the renter is ahead. Of course, one has to weigh the advantages of owning a home against the advantages of renting. So whether or not owning real estate in the form of a home is more of a savings than renting is debatable. However, such real estate is a kind of non-liquid savings.

*In purchasing a \$12,000 house with \$3,000 cash and a \$9,000 mortgage, the buyer is using \$3,000 that he might otherwise have invested. Considering that this investment might have brought him 6% per year, he is therefore out of pocket \$180 a year that he might have had if he had invested his money and rented a house.

†Although the interest payment on the mortgage would be reduced as the years go on, the amount of money tied up in the house is constantly increasing and therefore so is the loss of money that the buyer might have obtained if he had invested. So one compensates for the other and the 6% deducted every year might be fairly close.

‡If cost of fuel is not included in the rent, then this would have to be added.

Note: If the price level rises, the house price rises, and so the price of the house would be greater than \$10,875. Moreover, since the renter is almost certain not to have a 25-year lease, with an increasing price level his rent will have been increased; the figure of \$36,000 would therefore be much larger.

2. FURNISHINGS

There is a form of savings involved in the accumulation of serviceable, well-constructed furniture, electrical appliances, carpets, and other long-lasting furnishings that form part of the Canadian home. All these items, while bought singly, are really bundles of service that will last for years. Once they are paid for, they become assets of a non-liquid type. Although they are not purchased with a view to converting them into cash, they can if necessary be sold to obtain ready cash. So they represent a form of savings.

It is probably advisable to plan to accumulate savings of both liquid and non-liquid varieties. Money savings are valuable when special services for illness, education, or retirement are required, but obtaining a comfortable, well-furnished home cannot be underrated as a form of wise non-liquid savings.

CREDIT CAN BE USED AS A FORM OF SAVINGS

If consumers use their credit intelligently, they are not necessarily signing away their future income without having something to show for it. It is true that if two loaves of bread are bought and devoured today and paid for out of earnings next month, then there is nothing to show for it. If the consumer has used credit wisely, however, when the next month rolls around the products for which he is paying should still exist and be in good condition. They should become valuable assets. To purchase a refrigerator, using credit could consist of entering a contract to save monthly. The seller or lender is paid so many dollars per month for a number of months, after which the consumer owns the article, which should be usable for years. It has become a non-liquid asset. But all credit is costly, and if not obtained from a reliable source, or if more credit is obtained than can be afforded — that is, if credit is not used wisely — the result will not be a form of savings. Again, if one purchases an article on credit and it is entirely used up and is of no value after it is paid for, then there is really nothing to show for it except the use and enjoyment of the article while it was being paid for.

Buying on credit, if done with wisdom, can provide a type of non-liquid assets that constitutes a genuine form of saving.

QUESTIONS

1. (a) Why are Canadian banks called "chartered banks"?
(b) In what respect do chartered banks differ from post office banks?
2. What are the advantages of the branch banking system?
3. Using the latest Canadian Almanac, find out how many branches each chartered bank has in Canada.
4. (a) In what ways are credit unions similar to other financial institutions?
(b) In what ways are credit unions unlike other financial institutions?
5. (a) Which is the oldest savings bank in Canada?
(b) How does it differ from other savings banks?
6. Which savings institution would you prefer to use? Why?
7. Explain the statement "Realty is a non-liquid asset".
8. State the advantages and disadvantages of paying cash in full for a home.

PROBLEMS

Who would save the most, and how much, a renter or a buyer of a house, under the following conditions: The buyer makes a down payment of \$1,000 and takes out an \$11,000 mortgage at 6% for 25 years. His other annual expenditures are: taxes, \$225; insurance, \$15; repairs and maintenance, \$100; fuel, \$150. The renter pays \$100 a month for 25 years.

DISCUSSION

1. Government exercises too much control over the chartered banks.
2. Everyone should be compelled to save a part of his income.
3. Savings should always be followed by investment.



III *Measuring and Using Credit with Wisdom*

"Common sense in an uncommon degree is what the world calls wisdom."—COLERIDGE

"Temperance and labour are the two best physicians of man. Labour sharpens his appetite and temperance prevents him from abusing it."—ROUSSEAU

"Common sense", "temperance", and "labour" are three words that are applicable to the use of credit. Consumers should exercise common sense and temperance to see that they do not indulge in too much credit; and they should work with determination to see that their credit obligations are fulfilled.

AMOUNT OF CREDIT OBLIGATION ONE SHOULD INCUR

Social agencies have found that the tension and anxieties that build up in families who face heavy debts are contributing factors in many cases of threatened or actual family breakdown. A brief* presented in 1960 states that many welfare agencies report that "indebtedness is the primary problem in from 10 to 20 per cent of their case-loads, and an important factor in many more. In fact, one major agency has reported that problems of indebtedness occur in 40% of its case-load." It is obviously extremely important to stay within one's means when incurring a credit obligation.

It is easy to see how extended debt can threaten family life.

Example: The Walkers are a couple with four children between the ages of two and fifteen. Almost a year ago, in order to clear up back debts, the Walkers took out a second mortgage on their house. They got \$2,000 cash for a \$3,000 mortgage. They then opened a credit

*Presented by the Family and Child Welfare Division of the Canadian Welfare Council to the Senate Committee on Commerce and Banking, July 12, 1960.

account at a department store and purchased about \$1,800 worth of furniture. This was to be paid at \$50 a month from Mrs. Walker's earnings. Unfortunately, Mrs. Walker became ill and couldn't work. The department store contacted Mr. Walker's employer who threatened to fire him because Mr. Walker had a debt to a credit union of \$1,500 and had promised not to incur other debts. The credit union garnisheed† Mr. Walker's wages. The department store will probably do the same when the credit union is paid. Once that debt is paid, the employer will probably fire Mr. Walker. In the meantime the whole family is suffering a mental anguish that is destroying the atmosphere of the home.

This may be an extreme case. However, every day people are living beyond their means through credit. When this happens, not only does the family suffer, but the borrowers also are often beset with extreme emotional and mental problems.

From a borrower's point of view, one of the dangers results from the fact that the debt is greater than the cash he can realize on his goods, and while debts may increase, income may be constant.

Example: A man may purchase a new television set with a very small down payment, and the moment he turns it on in his home, the set may decrease in value to a point well below what he still owes on it because it is now "second-hand". There should be some working relationship between a person's debts, his income, and the resale value of goods obtained through the use of credit.

How much credit obligation should each individual incur? There can be no hard and fixed rule that can be applicable to all. Every family lives under different circumstances and must budget accordingly. However, it is wise to refrain from signing a contract to pay more out each month on unpaid balances than the total set aside in the budget for instalment buying. A family should decide what it can afford to pay each month for instalment purchases, and then should budget for that amount and stick to it.

WHAT THE DOWN PAYMENT SHOULD BE

As mentioned previously, it is generally advisable to make as large a down payment as possible without placing undue pressure on the family budget. The larger the down payment, the smaller the unpaid balance and the smaller the credit charge. However, there is no point in doing this if it forces one to cut down on food or clothing. So, again, the amount of down payment depends upon the individual's circumstances. Speaking generally, a down payment of at least 10% should be made; a larger down payment is preferable.

†See Chapter V, p. 48, for definition of *garnishee*.

HOW LONG IT SHOULD TAKE TO PAY OFF CREDIT

Intelligent planning is the only rule applicable in considering how long one should take to pay for a purchase. Consumers should exercise moderation in signing instalment contracts — they should rarely stretch themselves to the limit. Each prospective user of credit should carefully consider the following points:

1. What size and number of payments will fit most conveniently into the family budget?
2. How long after the payments are completed will the article last?
3. How far in the future does it appear that there will be a steady income?
4. What interest value will the object have while the payments are being made?
5. The fewer the number of payments the smaller will be the service charge.

The borrower should note that any form of credit conveniently paid off leaves more satisfaction behind it than one that becomes very burdensome before the last payment is made.

CONDITIONS THAT AFFECT CREDIT TERMS

Sometimes it is easy, at other times difficult, to borrow money or obtain credit. At one time goods are cheaper to buy on credit, at other times more expensive. Intermittently, instalment terms become easier or tighter. There are a variety of reasons for these conditions, but they are to a great extent controlled by the Bank of Canada. This bank was incorporated in 1934 by the Bank Act. The preamble to the act reads as follows:

"Whereas it is desirable to establish a central bank in Canada to regulate credit and borrowing in the best interest of the economic life of the nation, to control and protect the external value of the National Monetary Unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion."

The Bank of Canada, which is a government institution, can attempt to regulate the volume of credit in the best interests of the economic life of the nation. How does it do this? All the chartered banks use the central bank, so that it is the Bank of Canada that sets the rates at which the chartered banks themselves can borrow money. These banks in turn then set the rates of interest at which merchants and the lenders of smaller sums can obtain the funds they need. The

banking system in this way makes it easier or more difficult, cheaper or more costly, for business and consumers' banks to borrow funds necessary for extending credit service to consumers.

ADDING SECOND PURCHASES TO AN ACCOUNT PARTLY PAID UP

Is it economically sound for a family to add a second purchase to an account that is partly paid up? Suppose, for example, that a family is attempting to furnish a new home. They have purchased a new chesterfield for \$360, payable \$60 a month on the instalment plan. They have reduced this balance, through diligent payments, to \$60. Now they see an easy chair that they would like to purchase for an additional \$120 on the instalment plan. If these are two separate accounts, then for a time they would have two separate payments, which might be heavy to manage and would not be economically sound for the family. However, if they feel that the additional article is required at that time, they could probably handle the matter sensibly. If the purchase is made in the same store or through the same credit system as the new article, or through borrowing from the bank, the new purchase can be added to the existing contract.

In the above example, if the new purchase price of \$120 for the easy chair is added to the balance of the old account, the total is \$180. Now, instead of taking two separate payments of \$60 each, one to each account, it could be arranged that the basic instalment of \$60 be continued, but that part of the \$60 payment be used to pay off the old account and part be placed toward the new account. Possibly an arrangement could be made on the following basis: since \$60, the old balance, is $\frac{1}{3}$ of the total of the new balance, \$180, an agreement could be made with the creditors that $\frac{1}{3}$ of the \$60 payment, or \$20, could be used to reduce the old balance, and the remainder, \$40, could be used to offset the new account. In this way, both accounts will be paid up at the end of three months. This is known as "pro-rated credit".

<i>Payment number</i>	<i>Credit toward original account</i>	<i>Credit toward new account</i>
1	\$20.00	\$40.00
2	20.00	40.00
3	20.00	40.00
Totals credited	<u>60.00</u>	<u>120.00</u>

It is best to pro-rate future payments so that the old account will pay out first.

In the event of an "add-on" purchase, it is certainly preferable to pro-rate payments rather than add on additional payments. As was mentioned previously, one should never disrupt one's budget by paying out more than was originally allowed for credit. However, it is not advisable to keep adding on indefinitely without taking stock of progress made or without laying fresh plans for the future.

QUESTIONS

1. How would an average family determine how much credit obligation it could carry?
2. Why is it difficult to work out an exact percentage of debt to income that will apply equally to every consumer?
3. State the factors that determine how long it should take for a consumer to pay off credit obligations.
4. Explain how the Bank of Canada is able to regulate the cost of credit in Canada.
5. What is meant by an "add-on" purchase?
6. Explain the principle of "pro-rating".

PROBLEM

A man originally owed \$160 payable at \$20 per month. When his balance was reduced to \$60, he added another \$40 to it for another purchase, but continued to pay \$20 each month. Make a chart showing how this account would pay out when pro-rated.

DISCUSSION

1. Would there be any instance in which a family that pays 10% down with the balance payable in ten monthly instalments would be a better credit risk to a merchant than another family that pays 50% down with the same terms?
2. Why did James Coyne, the Governor of the Bank of Canada, resign from this position in July of 1961?



IV *Making a Budget*

"He seldom lives frugally who lives by chance. Hope is always liberal, and they that trust her promises make little scruple of revelling to-day on the profits of to-morrow."—SAMUEL JOHNSON

In order to get the utmost satisfaction from the money he receives, a person cannot live according to chance; he must plan. This means that he must have a budget — a plan for maintaining a balance between income and expenditures. Without careful budgeting there is apt to be careless spending — too much money spent on trifles — which often leads to misery. Our desires and needs are almost unlimited; we must decide which ones to gratify. So we find not only families but business firms and governments all working on a budget basis in this modern world.

ADVANTAGES OF BUDGETING

1. It encourages thrift and economy and curbs impulse buying.
2. It provides evidence to show where money has gone, thus indicating wise or unwise spending.
3. It shows at a glance the state of one's finances.
4. If it is followed, it enables one to live within one's income.
5. It provides training in money management.

DISADVANTAGES OF BUDGETING

1. It involves some detailed bookwork, which is time-consuming.
2. It is difficult for people whose income is uncertain or irregular.

STEPS IN PREPARING A BUDGET

There are a great variety of budgets and innumerable methods of constructing them. As a guide, one type of budget is included here, with a suggested method of construction.

Step One – Determine “Net Worth”

This involves taking stock of what one has at the present time and subtracting from it the amount one owes. The difference between these two is often called “net worth”. The determination of net worth is usually done by setting up a “balance sheet”. This consists of listing assets and liabilities.

Example: Consider a young married couple starting out their married life and preparing to make a budget. They would first determine their net worth by constructing a balance sheet.

<i>Assets (what they have)</i>		<i>Liabilities (what they owe)</i>	
Cash in pocket	\$ 50.00	Owing on car	\$50.00
Cash in bank	500.00	Owing on wedding ceremony	25.00
Ring	100.00		
Car (4 years old)	800.00		
Total assets	<u>\$1,450.00</u>	Total liabilities	<u>\$75.00</u>
Net worth		\$1,450.00	
		— 75.00	
		<u>\$1,375.00</u>	

Step Two – List Necessary Items

This step involves making a list of all items that will require expenditures. The young couple listed the following items:

Food	Car or transportation	Recreation
Shelter	Insurance	Education
Clothing	Medical and	Church
Furniture and	dental care	Savings
furnishings	Utilities	Telephone

Step Three – Group Items

The next step involves grouping items under the following suggested scheme:

- Necessary items that are quickly consumed. In this category would be placed such expenditures as food, clothing, shelter, utilities, telephone, donations, recreation, insurance, transportation.
- Savings — for undetermined yet expected costs. This would include such expenses as medical and dental care, and education.
- Savings — liquid and non-liquid. This would include savings and all accumulative liquid assets as well as expenditures on non-liquid assets such as furniture, car, appliances, etc.

Step Four – Prepare Percentages

The next step is to determine the percentage of total income that might be spent on each category. These percentages will naturally vary for each family, depending on its income and circumstances; no hard or fixed formula can be presented. To provide some idea of what is involved, however, there follows a list of suggested percentages.

FAMILY OF TWO

	<i>% of total salary—\$1,500</i>	<i>% of total salary—\$3,000</i>	<i>% of total salary—\$6,000</i>
A. Necessary items			
1. Food	30	25	19
2. Clothing	14	14	11
3. Shelter	29	24	18
4. Others, utilities, transportation	13	14	15
Totals	86	77	63
B. Savings, undeter- mined costs	2	4	8
C. Savings, liquid, non-liquid	12	19	29

FAMILY OF FOUR

A. Necessary items			
1. Food	37	25	19
2. Clothing	12	15	14
3. Shelter	30	28	22
4. Others, utilities, transportation	12	16	20
Totals	91	84	75
B. Savings, undeter- mined costs	2	4	7
C. Savings, liquid, non-liquid	7	12	18

Step Five – Writing the Budget

The next step is to "write up" the budget, indicating how much money will be expended for each item per month and per year.

Example: For the newly married couple, the following could be a suggested budget. Their income amounts to \$300 a month or \$3,600 a year, after deductions for income tax, unemployment insurance, etc.

	%	Monthly	Yearly
A. Necessary items			
1. Food	20	\$60.00	\$720.00
2. Clothing	12	36.00	432.00
3. Shelter (rent)	25	75.00	900.00
4. Utilities	25	15.00	180.00
5. Transportation (car, including insurance)		25.00	300.00
6. Recreation		25.00	300.00
7. Donations and other		10.00	120.00
		Sub-total	2,952.00
B. Savings, undetermined costs			
1. Medical and dental care	4	12.00	144.00
2. Additional education	none	none	none
		Sub-total	144.00
C. Savings, liquid and non-liquid			
1. Furniture	14	25.00	300.00
2. Savings in bank		10.00	120.00
3. Life insurance		7.00	84.00
		Sub-total	504.00

Total budgeted expenditures and savings for first year \$3,600.00

Step Six – Determine Net Worth

At the end of the year, a new balance sheet should be constructed in order to determine the new net worth. The net worth should have increased over the year.

Example: Our young couple were able to follow their budget without unforeseen difficulties arising and their new balance sheet looks like this:

Assets		Liabilities
Cash in bank –		
original savings	\$500.00	none
Cash in bank from budget		
– unused medical and		
dental allotment	50.00	
Cash in bank from budget		
– new cash savings	<u>120.00</u>	
Total cash in bank	670.00	
Cash in pocket	50.00	
Car (five years old)	600.00	
Furniture and furnishings –		
equity \$300 less		
\$30 for depreciation	<u>270.00</u>	
Gross total of their assets	1,590.00	
Net worth	\$1,590.00	

Allowing for depreciation on their car and furniture, this couple is about \$215 better off than they were at the beginning of the year when their previous balance sheet was constructed.

A budget might be defined as a “method of worrying before one spends instead of afterward”. However, knowing how to make a budget and sticking to it helps to lessen worry and provides for substantial financial stability.

USING CREDIT WHEN THERE IS CASH IN THE BANK

Is it advisable to buy things on the instalment plan even when there is cash in the bank? Most people prefer to pay cash for their durable goods, if they have it, but many Canadian families use credit to purchase new articles even when they have cash in the bank. This is done through very conservative budgeting. If the family is careful not to go too deeply into debt, if they know the cost of credit, if they budget carefully, then credit used under these circumstances can have its advantages.

It is comforting to know that there is cash in the bank to take care of any emergencies. It is also comforting to know that if an “opportunity of a lifetime” arises, one does not need to forgo it because of a lack of cash. Sometimes buying a new object may deplete the savings to such an extent that a feeling of insecurity arises; for that reason many families continue to use credit even when there is cash in the bank. They apparently feel that the advantages of having cash savings offset the disadvantage of the cost of credit. This can be done with some success providing there is utmost caution in budgeting.

QUESTIONS

1. Define budgeting. Show why there is need for it.
2. State the advantages of budgeting.
3. Do you think that the disadvantages of budgeting are sufficient reason to prevent an individual from budgeting?
4. Why is a balance sheet helpful in making a good budget?
5. Why do many families buy on the instalment plan when they have sufficient cash in the bank for purchase of the items?

PROBLEMS

1. Consider that you are living in a city, independent of your family. You are earning \$50 a week take-home pay. Using current prices, work out a satisfactory weekly budget.
2. Draw up a budget for a family of three living on \$300 per month. How long would it take this family to save a down payment of \$2,000 for a house?

DISCUSSION

1. Why do some people live beyond their incomes?
2. "The spendthrift is more useful to society than is the thrifty person." Discuss.
3. Have you ever purchased articles on impulse? Did you consider your choices wise?



V *Legal Problems for Consumers*

"One of the sublimest things in the world is plain truth."—

BULWER

It is advisable to look ahead. Emergencies sometimes do arise despite all that may be done and planned to prevent them, and they hit both the cash customer and the credit customer. Most of these problems can be solved through the customer's and the merchant's application of the age-old principles of honesty, fairness, and truth. There are a few situations, however, that may arise in which this co-operation is lacking and these principles have to be enforced through application of law.

LEGAL PROBLEMS INVOLVING THE CASH CUSTOMER

Generally, when a consumer pays cash for articles he acquires ownership of the goods at the time of the sale. This is sometimes called an "absolute sale" and comes under the Canadian law known as the Sale of Goods Act. The cash customer might keep in mind a few facts about transferring ownership of articles and about warranties.

A. **Transfer of Ownership**

Sometimes the consumer has intentions of paying cash for an article but for some reason or other is delayed in doing so. In these cases there may be some risk of ownership involved.

1. If a customer picks out some goods and asks the seller to set them aside for him, the ownership of the goods passes to the customer immediately, even though the payment is not made immediately.

Example: Brown goes into a hardware store, picks out two gallons of white paint, and asks the merchant to set them aside for him while he goes to the post office to get his mail. He promises to pick up the paint

and pay cash for it when he returns. While he is gone, through no negligence on the part of the merchant, the paint is stolen. Unless there is an agreement otherwise, ownership has already passed to Brown and he is liable to pay for the goods. It is quite possible, of course, that the hardware dealer, in order to keep the good will of his customer, may ignore his legal rights and not demand payment.

2. If a customer picks out some item and asks the merchant to perform some act on the item, such as measuring or weighing it before setting it aside, the title of the goods does not pass until such work is completed and the buyer is notified.

Example: Jones goes into a clothing store and buys a pair of trousers. He discovers that some alterations are required. He leaves the store promising to return in an hour to pick up and pay for the altered trousers. In the meantime, through no negligence on the part of the merchant, the trousers are destroyed by a small fire. In such a case, since the buyer was not notified of the alterations, he is not liable to pay for the trousers.

3. When a customer takes home an article on approval, the ownership passes to the buyer when he expresses his intention of accepting the article or does any act that indicates this intention, such as keeping the article an unreasonable length of time.

Example: A woman takes home a pair of slacks on approval, promising either to return them the next day or else to purchase them. She takes the slacks home and forgets all about them until a week later. Then she suddenly decides she doesn't want the slacks and attempts to return them to the store. Legally she is bound to purchase them, but probably the store will accept them in order to maintain good will.

B. Conditions and Warranties

Conditions and warranties are terms of a contract. A condition is a part of a contract that is so essential to the contract that failure to fulfil the condition amounts to non-performance; whereas a warranty is not so essential and failure to observe it does not nullify the main purpose of the contract.

1. If a buyer orders goods on the basis of a seller's description, as from a catalogue, circular, or sample, there is an implied condition that the article sold will measure up to the description.

Example: A high school basketball team wins the school league championship and wishes to order jackets for members of the team. A sales representative takes their orders and shows them a sample of the proposed jacket. When the jackets arrive, however, they have cotton

lining instead of silk lining, and blue letters instead of their team's colours. The team rejects them because they are not according to sample. The buyers had a right to reject goods that were not according to their order and that did not answer their requirements.

2. If an individual has had full opportunity to inspect goods purchased there is no implied warranty in respect to the quality of goods sold. *Caveat emptor*: "Let the buyer beware."

Example: A housewife enters a grocery store to purchase a box of apples. The merchant opens the box and the woman inspects the apples. She takes them home and discovers after opening them again that she had only inspected the top two layers, that the bottom layer was of poor quality. She has no legal right to return the apples, even though the store will probably accept them in order to maintain good will.

LEGAL PROBLEMS INVOLVING THE CREDIT CUSTOMER

In an instalment purchase, the sale is made under the condition that the buyer obtains possession of the goods at the time they are sold, but the seller retains the right of ownership until the full price is paid. This is sometimes called a "conditional sale" and comes under the Canadian law known as the Conditional Sales Act.

A. What To Do If Instalment Payment Cannot Be Met

It is amazing that from so humble an origin as the oyster can come the pearl. When people are irritated they fuss, fume, and blow their tops; not so the oyster. When foreign particles set up an irritation inside the oyster, he quietly exudes a substance that allays the friction, covers the sore spot, and miraculously hardens to form a pearl. Often when people cannot meet a scheduled payment they get very upset and hide from their creditors or do other nonsensical things that are usually set off by panic. When income is temporarily cut off so that one cannot meet payments, one should try to remain calm and follow the rules of "good buymanship":

1. Call on the creditor and tell him frankly the facts that make it impossible to keep up the payments.
2. Discuss future prospects calmly with the creditor so that you can work out something together.
3. Make a conscientious effort to carry out the revised agreement.

B. Creditor's Rights in Event of Default of Payment

There is considerable uniformity in the type of conditional sale contract that is offered to the public. It is usually printed on the back of

the invoice on which the sale is recorded. This contract generally gives the merchant these rights:

1. Authority in the event that payments are not kept up to enter the buyer's premises and retake possession of the goods.
2. To retain all sums paid on the article up to that point.
3. To resell the article after repossession.
4. To garnishee. Garnishment is the process by which properties and funds of the debtor that are in the possession of other persons can be reached to satisfy a debt. The most usual garnishees are the debtor's employer and the debtor's banks; that is, the creditor can draw upon the debtor's wages or his bank account in order to get what is owed.

The aforementioned courses of action are really not profitable for either the seller or the buyer, but sometimes they are the only way out. The intelligent thing for the buyer to do in such situations is to co-operate and arrange a voluntary return of goods and not force the creditor to take action. This leaves the buyer's credit in better position for the future.

C. Buyer's Rights in Event of Default of Payment

1. In the event of default of payment and repossession of goods by the seller, the merchant must keep the goods for twenty days, during which time the buyer may redeem the goods by paying the balance in arrears with interest, cost, and the expenses of repossession.

Example: A lumber yard included in its conditional sale agreement the following: "In the event of default and repossession of goods, the seller may immediately and without further notice resell the goods." This condition is contrary to the Conditional Sales Act and so has no legal effect; the buyer is still entitled to twenty days to redeem his goods.

2. In the event of default of payment, with repossession and resale of goods, there is nothing in the act that allows the seller of the goods to retain a surplus realized on the resale. If there is a surplus, it has to be returned to the original purchaser.

Example: A man purchased a refrigerator for \$350 under a conditional sale agreement. He paid \$50 down and promised to pay the remainder plus credit charges in six monthly instalments of \$50 each. After four months, the man was unable to keep up payments and, since default occurred, the merchant repossessed the refrigerator. After twenty days, he put it up for sale and received \$150 for it. Since the buyer had paid \$250 towards it, this additional \$150 made a total of \$400. The surplus of \$50 had to be returned to the original buyer.

It is the policy of most businesses to treat the public honestly and fairly. Consequently, it is generally wise for the consumer to treat businesses and creditors with equal truth and frankness. If difficulties do arise, however, it is always advisable to ask a lawyer for advice.

QUESTIONS

1. When something has to be done to the goods in order to make them deliverable, at what point does ownership (title) pass?
2. According to the Sale of Goods Act, what are the buyer's rights when goods are sold by description or by sample?
3. Explain the difference between a condition and a warranty.
4. When a customer finds it impossible to meet scheduled payments, state three rules of good buymanship that he should follow.
5. What are the customer's rights when default occurs and repossession takes place?
6. What are the rights of the merchant or creditor if a customer cannot meet his payments on an instalment purchase?

PROBLEMS

1. Parker is a retailer who purchased from a manufacturer a large order of woollen socks described as "processed so as to be unshrinkable". Several of Parker's customers returned pairs of socks showing that they had actually shrunk. Parker refunded his customers their money and then attempted to recoup from the manufacturer. The manufacturer refused. Would Parker have any right of legal action? Explain.
2. Holden agreed to purchase Doyle's automobile. The price of \$1,500 was paid and Holden agreed to call at Doyle's house the next day to take delivery. During the night the car was destroyed by fire. Who bears this loss? Explain.
3. Assume, in the above case, that the reason for the delay in delivery was that Doyle was to have the carburetor cleaned before delivery to Holden, but the car was destroyed before this could be done. Who bears this loss? Explain.
4. Ford delivered to Stewart an air conditioner "on approval", his decision to be given in three days. A week later Stewart tried to return the conditioner. Ford refused to accept it and claimed that the contract was now binding. Is he correct? Explain.
5. The Outright Hardware Company repossessed some goods that had been sold under a conditional sale agreement, and resold the goods the day following repossession. The buyer from whom the goods were repossessed protested that he was intending to redeem

the goods, but the company claimed that the terms of their contract gave them the right to resell immediately and collect any deficiency. Is the company right? Explain.

DISCUSSION

1. Would the following contracts come under the Sale of Goods Act? Discuss.
 - (a) A contract to upholster a chesterfield.
 - (b) An agreement by a student to sell Christmas cards.
 - (c) An agreement to buy a cottage at the lake.
2. Compare the doctrine of *caveat emptor* with the policy that "the customer is always right".



VI *Becoming More Intelligent Consumers Through Wise Selection*

"Formerly when great fortunes were only made in war, war was a business; but now when great fortunes are only made by business, business is war."—BOUEE

In our free enterprise system, competition has become so severe that businesses are engaged in a type of warfare. They have to use every possible means to sell products, and to get more customers. When a consumer buys carelessly he is lowering his own standard of living because when he wastes a dollar in poor buymanship he deprives himself of other products that he might have enjoyed if he had purchased with greater wisdom. Thus one may ask, in the midst of this "war of business", how can the consumer choose wisely?

MAKING WISE SELECTION OF GOODS

Today consumers are becoming increasingly aware of the tremendous sales pressures to which they are subjected. Persuasive voices are shouting at them continually from radio, television, newspapers, billboards, and magazines, tempting them into buying much that they do not need. The following suggestions may help the consumer to make a wise selection of goods.

A. Learn To Judge Quality

There are on the market today a variety of articles offered for sale in different grades of quality. Gasoline, for example, is sold in premium and regular grades. Meats are graded "choice", "good", "standard", and "commercial". Generally the highest-quality merchandise sells at the highest price. However, in judging quality, price is not always a safe guide. Sometimes identical merchandise is packaged under

different trade names and offered for sale at different prices; certain products made by different companies may be almost identical since they are manufactured to meet government standards, yet have different prices; often goods of identical quality may sell at considerably higher prices in some stores than in others because of extra services offered, such as free delivery, plush surroundings, and additional salesmen. Since price is not always a reliable guide, how can consumers judge quality?

1. BUY BY GRADE

The majority of Canadian food products that are sold in retail stores are graded according to quality with the grade mark appearing on the container or product. These grades are established by the Canadian Department of Agriculture. The word "Canada" in a grade name simply means that the product has been graded according to federal standards. A standard is a measuring device that helps to define quality and a grade is simply a means of identifying a standard. The majority of foods are graded, and the intelligent consumer becomes familiar with the meaning of the various grades.* A few of these grades are listed and explained here.

(a) *Beef*

Canada Choice (represented by a red brand) comes from choice-quality beef with a high proportion of meat to bone and a good covering of fat.

Canada Good (represented by a blue brand) comes from good-quality beef with a slightly lower proportion of meat to bone and less fat content.

Canada Standard (represented by a brown brand) has a lower proportion of fat to lean meat.

Canada Commercial has lowest proportion of meat to bone.

Do not pay much attention to the wording on the brand; look for the colour of the brand to make proper identification.

(b) *Butter*

All creamery butter sold in Canada is graded.

Canada First Grade is the highest quality, containing excellent flavour and uniform texture and colour.

Canada Second Grade is imperfect in flavour and may be defective in texture and uneven in colour.

Canada Third Grade is more imperfect in flavour, texture, and colour.

Below Canada Third Grade is lowest in quality.

*See Chapter VIII for resource material.

(c) *Eggs*

The grades are clearly marked on the egg containers.

Canada Grade A1 are clean and normal in shape, with a sound shell and round, compact yolks.

Canada Grade A are almost normal in shape with sound shell and fairly well rounded yolks.

Both Grade A1 and Grade A come in sizes of "extra large", "large", "medium", "small", and "peewee".

Canada Grade B are slightly abnormal in shape, with sound shell and moderately oblong yolks.

Canada Grade C have an unbroken shell that may be dirty or stained with an irregular surface, and contain an oblong yolk. They are mainly used for commercial frozen egg products.

(d) *Canned Fruits and Vegetables*

Canada Fancy are highest grade and are as nearly perfect as possible.

Canada Choice fruits and vegetables are clean and free from blemishes, but do not have perfect uniformity in size and colour.

Canada Standard products are of good quality but are not uniform.

2. BUY BY LABEL

The basic function of the label is to give an accurate description of the contents so that the purchaser may not be deceived. Canada's Food and Drugs Act insists on truthful labelling. It specifies that all information on labels must be "clearly and prominently displayed thereon and readily discernible to the purchaser or consumer under the customary conditions of purchase and use".

By reading a food label, for example, the customer can find out such things as:

- (a) Form — solid, sliced, powdered
- (b) Method of processing — baked, powdered
- (c) Net contents — in weight or numbers
- (d) Origin — beef, pork, chicken
- (e) Kind — chocolate, whole wheat
- (f) Declarations — of added preservatives, food colour, artificial flavouring; conditions for use; list of ingredients
- (g) Dietary claims — sodium content, type of sweeteners
- (h) Grade

By reading a clothing label, a customer can find out how much wool there is in a piece of cloth. The jar of vitamin tablets lists its nutritional values. In fact, a "label reader" can obtain a wealth of information about the quality of the product. Certification labels are helpful in indicating that a product meets the requirements of independent testing agencies; for example, the C.S.A. label of the Canadian Standards Association provides assurance of the safety of an electrical appliance.

3. BUY THROUGH ADVERTISEMENTS

Advertisements can provide some information for judging product quality. However, since advertisers are basically concerned with selling their products and therefore have a tendency to describe them in glowing terms, one has to look for actual descriptions, just as one does in reading a label.

4. BUY BY CONSULTING CONSUMER MAGAZINES*

Consumer Reports and *Canadian Consumer*, for example, provide good information in the form of articles and ratings. These impartial ratings are made on several competing brands of goods on the basis of use-testing and examination.

It is not only important to be able to judge quality but even more important to be able to fit the quality to the need. Often goods of high quality and high prices do not serve people's purposes any better than do goods of lower grades. Some automobile engines operate quite well on regular gasoline; why should the owners buy premium grade? For some meat dishes, second-grade cuts are just as appetizing and nutritious as the highest-priced cuts.

B. Learn To Recognize a Bargain

Sometimes articles are advertised at reduced prices because a merchant wishes to get rid of odd sizes or slightly obsolete goods. But some merchants make a practice of marking goods with two prices — a "list" price and a "sale" price; the article marked "made to sell for \$20, now \$14.95" was probably produced to sell for under \$15. The consumer must not expect all "sales" to be genuine bargains.

A bargain has been defined as "a disease common to woman, caught in the Sunday papers and developed in department stores on Mondays". When is a bargain really a bargain? In the first place, it is a bargain only if it satisfies a real need. There is no point in bringing home a "bargain" only to have it stay around the house unused. Again, it is a bargain if, upon comparison with the price of the article in

*See Chapter VIII for description of magazines.

other stores, it is found that there is a substantial reduction in price. The following are considered price reductions that attract wise shoppers:

1. Shopworn goods, "seconds" with slight imperfections, and demonstration models are items that can often be just as useful as higher-priced items.
2. End-of-season or clearance sales often provide real bargains.
3. Sometimes merchants cut prices for a day or a week in order to move a large volume of goods. These are sometimes referred to as "Dollar Days" or "Anniversary Sales".
4. It is wise to notice price reductions that are seasonal. During the growing season, fresh fruits and vegetables are sold at their lowest prices; near the end of the year, car dealers have to make room for the next year's models, and so sell their old cars at considerable reductions.
5. Purchasing goods in quantity can sometimes contribute to savings, though care must be taken that not more is purchased than can be used or stored conveniently.

C. Examine the Package Carefully

It is the contents that counts, not the package. Attractive packaging may be deceptive in a variety of ways; these precepts should be followed:

1. Do not be misled by the shape of the package. The shape of a bottle, for example, may give an incorrect impression as to quantity. Some containers are much larger than necessary to hold the contents. So whenever possible the customer should note the number of ounces and calculate the price per ounce. Calculate the price per ounce in the "giant economy size" to discover what actual economy is achieved by the quantity purchase. On "specials" calculate the price per ounce and compare this with the price of the same article when it is not on special.
2. Examine meat packages carefully: the package may be concealing the large end of the meat bone or the amount of fat on the bacon. Attractive packaging may be deliberately hiding mediocre or inferior quality.

D. Buy Discriminately

In the purchase of any article, it is necessary to use good judgment in making a choice.

1. HOME APPLIANCES

It has been estimated that there are many millions of major home appliances in use. Although technical information may be obtained by

comparative shopping and from literature provided by manufacturers and dealers, a few helpful suggestions and warnings may be of some value.

Suggestions:

- (a) Choose a reputable dealer. He can only build his business by handling products of dependable manufacturers.
- (b) Select the size or capacity of appliance that is appropriate for your present and future needs. Be sure that there is enough room for the appliance. Remember that doors on refrigerators, ovens, etc., take room to open. Refrigerators can be obtained with either left-opening or right-opening doors; check which would better suit the space you have.
- (c) Check to see what the price includes. Does it include delivery, installation, and service?
- (d) Make sure there is adequate wiring in the house for the new appliance. Appliances requiring special installation and high voltage can be costly.
- (e) Read the guarantee carefully to find out whether a manufacturer's warranty (stating the conditions under which the article or part of the article is replaceable by the manufacturer) or a dealer's warranty or both are provided.
- (f) Obtain information when the appliance is purchased as to how and where servicing of the appliance is provided.
- (g) Realize that purchase of a second-hand appliance is a gamble. Unless it is backed by a guarantee in writing by a reputable dealer, the purchase is risky because the buyer assumes liability on its condition and operation.

Warnings:

- (a) Generally, guard against claims by a retail store that it is selling appliances at wholesale prices.
- (b) Beware of fictitious or inflated allowances for trade-ins. Usually the total price is increased to cover these generous allowances.
- (c) Be sure that a "free home trial" is not a trick to get a signature on a purchase order.

2. RUGS AND CARPETS

These may be among the more expensive items in a family's budget; give considerable care in their selection. The following is a list of suggestions that might be followed in choosing these articles.

- (a) Know approximately what is desired in terms of colour, design, and especially quality. The quality and durability that are required in a rug depend on where it will be used and for

how long, and the amount of wear it will receive. There are top, medium, and economy grades suitable for various degrees of traffic. To judge the quality of rugs and carpets, examine the surface and the backing. Generally speaking, "the deeper, the denser, the better". Closeness or density of pile usually indicates good-quality carpet. Although depth of pile is primarily a style factor, when combined with density it also indicates quality. A good carpet backing is required for a firm foundation to prevent stretching, shrinking, and buckling.

- (b) Measure the area where the carpeting is to be used and take the measurements along to be sure of getting the proper size.
- (c) Shop to compare prices and quality.
- (d) Find a reputable dealer with a wide selection of carpeting and an informed sales staff.
- (e) Read manufacturer's labels to learn the brand name of the carpet, the fibre content, and the recommended use of the carpet (for heavy, medium, or light traffic areas).

3. DRAPERY

There are on the market today a great variety of fabrics and patterns for drapery. Most of these are designed for long-lasting service, but there are some materials and colours that, because of their own properties, and through no fault of the store or dry cleaners, do not withstand the strain of hard wear; so some caution should be exercised in choosing. The following are some suggestions:

- (a) Examine the fibres; these may be natural (cotton, wool, silk), synthetic (acetate, glass, nylon, rayon), or a blend. Look for labels showing the fibre content, its characteristics, and the care recommended.
- (b) Examine the weave. Generally, the more closely woven fabrics have the greater durability and resistance to stretching and sagging.
- (c) Look for a finish that may have been applied to the fabric to change its appearance or character. Such finishes can accomplish many things: increase wearability; provide easy care; add body, lustre, or crispness; make the fabric moth-proof, or shrink-proof; make it resist wrinkles and creases, and so forth. Read the labels to discover what finishes have been applied, what they do, and how long they will last. In other words, buy only material that is properly labelled, or deal with a sales person who can answer fully your questions about the fabric.
- (d) Buy from a reputable dealer.

4. FURNITURE

There are a great number of new materials and construction methods used in the manufacture of modern furniture. The following money-saving ideas may assist in keeping home furnishing expenses at a minimum:

- (a) Second-hand furniture of good quality may be more economical than low-quality new furniture. It can be obtained through second-hand shops, auction sales, or friends. Inspect the furniture carefully, however, and obtain as much information as possible about the use it has received. There are usually no guarantees or refunds on used furniture.
- (b) Unfinished furniture may offer an opportunity to save money, if you have some skill at finishing. In this case, you should compare the price of similar pieces, finished and unfinished.
- (c) Purchase of slightly damaged furniture can be economical. Often this furniture is sold at reduced prices, and can be an excellent buy if you can make the repairs to the wood and upholstery yourself. Be sure, though, to find out the full extent of the damages and estimate the cost of repairs before purchase.
- (d) Furniture sales, particularly in February and August, provide money-saving opportunities.

When buying furniture it is important for the customer to inspect the product very carefully. A brief consideration of wood furniture, upholstered furniture, and beds may be of value.

Wood Furniture

This includes tables, chairs, buffets, desks, and so on. The frameworks of these articles are usually made of solid wood; the sides, top, and back parts are made of solid or veneer wood, metal, or plastic. To judge the quality and suitability of this type of furniture one should consider the following items:

- (a) *Materials.* Wood furniture can be classified as "solid" if all exposed surfaces are made of solid wood (e.g., cherry, birch, mahogany, maple, oak, walnut). Veneer furniture is plywood consisting of three, five, or seven layers of wood bonded together. It can be labelled "genuine" (walnut, cherry, etc.) if all exposed parts are of the wood named. Most furniture today is made of veneer plywood over a solid hardwood frame.
- (b) *Finishes.* Finishes can be applied to give colour and protection, to accent wood grains, and to provide resistance to water, abrasion, heat, solvents, etc. Read labels to know what finishes have been applied.

- (c) *Construction.* The backs of chests, desks, or buffets in high-priced and medium-priced furniture are inset and screwed into the frame. In low-priced furniture, backs may be flush with the sides and tacked or nailed in position. In high-quality pieces, backs and undersides are sanded and colour-stained to match the wood of the top and front. Drawers, doors and drop-leaves should operate smoothly and fit properly. Joints should be sturdy and fit tightly. Finishes should be hard, smooth, and evenly applied.

Upholstered Furniture

This includes chairs and sofas. In this kind of furniture, since the outer covering conceals inner construction details, it is very important to inspect the articles carefully before purchase. To judge the quality and suitability of upholstered furniture one should consider in particular:

Construction. Upholstered furniture should be comfortable, yet durable and sturdy. The frame should be made of hardwood free of knots or imperfections. Points of strain should be reinforced with corner blocks or metal plates. Coil springs should be made of tempered carbon steel and placed close together. The contents of filling materials for cushions should be clearly labelled. The covering may be of woven fabric, vinyl plastic, or leather, but should also be clearly labelled.

Beds

Both mattresses and springs must be chosen carefully. One might consider the following points about these items:

- (a) *Size.* Standard-size double-bed mattresses are 54 inches wide by 75 inches long; twin-bed mattresses are 39 inches wide. For sleeping comfort look for a mattress 6 inches longer than the sleeper.
- (b) *Firmness.* There are varying degrees of firmness; check the mattress in the store to be sure it gives the type of support required.
- (c) *Mattress Construction.* If shopping for an inner-spring mattress, look for independent spring action. There are generally 500 to 800 strong steel coil springs in a standard double-bed mattress. The coils may be joined together with steel spring-wire, or they may be sewn into supporting cloth jackets that are fastened together. If shopping for a foam mattress, look for sufficient weight to keep linens and blankets in place.
- (d) *Spring Construction.* There are three types of bedsprings. Box springs, the most expensive, are made of spring-wire coils

mounted on a wood frame, padded, and covered with ticking. Metal coil springs are similar but are not padded or covered. They are less expensive than box springs. Flat springs made of flat strips or links of wire are the least expensive and tend to sag. For the greatest comfort and service, buy the bedsprings that are designed to support the type of mattress that is purchased. It is generally advisable to buy the mattress and bedsprings together.

5. PAINT

Modern paints with their complex chemical formulae are very different from the earlier paints. Many of today's consumers have a woeful lack of knowledge about what is available to them today. The following suggestions are offered:

- (a) Purchase high-quality paint. It might appear a little more expensive, but is cheaper in the long run. If cheap paint is purchased the initial saving in dollars is offset by the fact that more gallons are required for the job. Such paint also tends to fade soon after application, and excessive chalking and cracking occur after a season or two. High-grade paints are made from the best pigments and bases, which when processed properly contain, to approximately 90%, efficient film-forming solids. That is, approximately 90% of the paint actually remains on the surface to protect it. Cheap paints, on the other hand, are made from inferior pigments in combination with quantities of mineral spirits and water which, after they have evaporated, leave 40% to 45% of inferior film-forming solids. Since this difference is difficult for the average person to detect, it is advisable to purchase paint made by reputable manufacturers and distributed by reputable, authorized, and established dealers and agents.
- (b) Beware of buying paint that sells for an excessively low price, makes extravagant claims, and offers various types of "money-back" guarantees — particularly if the paint is an unknown brand.
- (c) Beware of paint that is said not to peel or fade. Any paint will fade over a period of time. It is true that manufacturers of quality paints are turning out products that are highly blister-resistant when applied strictly according to instructions; however, any paint will blister when excessive moisture from inside the house works its way outside.
- (d) If a painting contractor is retained, be sure of his reputation. Since labour costs for contractors are usually similar, beware of

the quotation that is lower by a wide margin. Maybe he will use inferior-grade paint or take short cuts that reduce the quality of the work done.

- (e) When estimating how much paint to purchase, obtain the advice of a reputable dealer. The following formula could be applied, though, when using exterior paint:

Distance around house $\times$ (average height from ground to eaves + 2 feet) = total square feet

Total square feet $\div$ covering capacity of the paint = number of gallons required

Example: Mr. Jenkins has a house $24' \times 30'$ with the average height from ground to eaves being 12'. The paint he has purchased is supposed to cover approximately 500 square feet per gallon.

Distance around house = $108' \times (12 + 2) = 1512$ sq. ft.
 $1512 \div 500 =$ approximately 3 gallons

However, if one has large picture windows, less paint will be required. For trim areas, one should figure approximately one-fifth of the total area.

6. HOMES

Having reached a decision after considering the pros and cons of home ownership, and having reached a financial position where home ownership is practical, one has to consider whether to have the home custom-built or to purchase a ready-built house.

(a) *Buying a Ready-Built House*

When buying a ready-built house, one has the advantage of knowing what it looks like in finished form and exactly how much it is going to cost. But there are many things to be considered. Before deciding to buy it is advisable to engage a reputable architect or contractor to inspect the house. Also, obtain all basic information on the location of the property. Find out if it is accessible to churches, schools, stores, buses, parks, and recreation facilities; if all utilities such as gas, electricity, water, and sewer are installed and paid for; if the land values are going up or not; if the neighbourhood is deteriorating or improving; if land use in the area is controlled by zoning; if there is adequate police and fire protection, and garbage removal.

Also, one should obtain all essential information on the value of the house itself. Find out where the property lines of the site run and if the property is properly graded so that surface water will not run

OFFER TO PURCHASE OR INTERIM AGREEMENT

To

I/We hereby offer to purchase the following described property:.....
(Fill in House Number or Legal Description)

..... Alberta
 subject to the reservations and exceptions contained in the existing Certificate of Title,
 for the sum of (\$.....) Dollars
 Payable as follows: (\$.....) Dollars
 upon execution by the Vendor of Transfer or Agreement for Sale as the case may be, and the balance as
 follows:

.....
 The said purchase price shall include the chattels hereunder written which for the purpose of this
 transaction shall be valued at \$.....

..... Taxes, interest, rents, insurance and utilities to be adjusted to the..... day of..... 19.....

..... Possession, subject to the terms hereof being complied with, to be given on the.....
 day of....., 19....., subject to the rights of the present tenants, if any.

The Purchaser has inspected the property and it is agreed that there is no representation, warranty,
 collateral agreement or condition affecting this agreement or the real property or supported
 hereby other than expressed herein in writing.

Transfer or Agreement for Sale is to be prepared at the expense of the Vendor and the Purchaser
 agrees to enter into Agreement for Sale covering insurance, taxes, payment, etc. This offer shall be
 irrevocable by the Purchaser until..... p.m., on the..... day of..... 19.....

I hereby agree to purchase said property as it stands and I herewith hand you the sum of—

..... DOLLARS as deposit which shall be applied on
 the purchase price IF THIS OFFER IS ACCEPTED, OTHERWISE THE DEPOSIT TO BE REFUND-
 ED TO ME, provided, however, that if the Purchaser shall fail to pay cash payment or comply with
 the terms hereof as hereinbefore agreed, the said deposit shall be absolutely forfeited as liquidated
 damages and shall thereupon apply firstly on the agents' commission, and the agreement herein shall
 be considered null and void at the Vendor's option.

IN WITNESS WHEREOF, I/We have hereunto set my/our hand(s) and seal this day
 of..... 19.....

SIGNED, SEALED AND DELIVERED
 in the presence of

.....
 (Full Name of Purchaser)

.....
 (Occupation)

.....
 (Full Name of Purchaser)

Phone..... Address

I, the undersigned, Vendor, hereby accept the above offer, and I, the undersigned spouse of the
 Vendor, hereby give my consent to the hereinbefore mentioned disposition of the said premises.

DATED at....., Alberta, this day of..... 19.....

.....
 Witness

.....
 (Vendor)

.....
 (Vendor's Spouse)

I, ... being married to the above-
 named Transferor, do hereby
 give my consent to the disposition of our homestead, made in this instrument, and I have executed this
 document for the purpose of giving up my life estate and other dower rights in the said property given
 to me by the Dower Act, to the extent necessary to give effect to the said disposition.

.....
 Signature of Spouse

into the basement; if the house is well located for sun and shade in the summer; if the architectural design of the house is in good taste (that is, if the design is based on simplicity and honesty of expression); if the floor plan will suit the family and its mode of life; if the floors are level; if the plaster is free of cracks and stains; if the walls and roof are properly insulated; if the windows move freely; if doors close properly. Throughout the business have a lawyer handle all items that have legal implications.

(b) *Building a House*

The following steps might be followed in building a house:

Site. The prospective site should be surveyed so that the exact boundaries will be known. Examine the topography and slope of ground for drainage; the ground structure to determine whether it is of rock or clay formation; the lot generally to consider how much filling is required; the title to see that it is clear (that is, that the person who is selling you the land is entitled to do so).

Plans. It is possible to employ an architect to draw up plans and to ensure that the building is soundly constructed and of good design, but one may also engage a contractor or builder and use ready-made plans. Again, one may buy stock plans and arrange with several contractors for different aspects of the construction, though this implies considerable trust in the contractor or else considerable legal knowledge on the part of the prospective owner.

Liens. A lien is the right of workmen and material dealers to place a claim against a structure if they have not been paid for their services.

Example: Mr. Winters hired a contractor to build a house for him. He paid the contractor the sum of \$12,000 to have the house built according to specifications. The contractor, however, did not pay his workers or his sub-contractors (e.g., plasterers and electricians); consequently the workmen and sub-contractors filed a lien against Mr. Winters' house. Mr. Winters had to pay the workmen and sub-contractors, even though he had paid the contractor.

It is important to have a lawyer arrange for waiver of liens from contractors and sub-contractors so that this will not happen.

Mortgages. If a person is unable to pay cash for the construction of the house, he will have to obtain credit of some kind. One of the most common methods is through a mortgage agreement. A mortgage means that the property is pledged to the lender as security until the loan is repaid with interest. Borrowers should

thoroughly understand the terms of the agreement. One should be especially familiar with the provision that gives the lender the right to seize the property through a legal process known as *foreclosure* if the borrower fails to keep up with payments.

7. AUTOMOBILES

The need to shop carefully for a car, whether used or new, cannot be overstressed.

(a) *New Cars*

A new car is one that has not been registered by a private owner. Prices are determined by supply and demand as well as by the manufacturer's suggested "list" price. Sometimes dealers list their price at a couple of hundred dollars more than a competitor in order to give a higher trade-in allowance for old cars. A prospective buyer should not concentrate on the amount of trade-in value of his car; he should concentrate on how much it is going to cost him to buy the new car — the net difference between the trade-in allowance and the price of the car.

(b) *Used Cars*

A used car is one that has been sold, registered, and used. Generally, used cars can be classified two ways: *reconditioned* cars — cars put into good condition so that they may be sold with reasonable guarantees; and cars sold "as is" with no warranty and therefore no liability. The reliable dealer will make a clear distinction between the two types; the unreliable dealer will confuse the two. Dependable dealers will not object to a thorough examination, nor to a reasonable testing-time. In buying a used car, keep in mind the following points:

Do not pay much attention to speedometer readings.

Examine upholstery to see if it has been neglected.

Examine the driver's seat, front floor-boards and foot-pedals for wear.

Examine the underside of fenders to find out whether the fender has ever been bent; if it has, the car may have been in an accident and damaged in other ways that are harder to detect.

Examine tires to see whether they are rebuilt, retreaded, regrooved, or repaired; this tells a story.

Examine the battery and oil gauge, and listen to the motor.

Examine the exhaust to see if it emits heavy bluish oil-smoke.

Check gaskets, water pump, and radiator for leakage (with motor running).

Test the car's ability to idle.

Test the brakes.

Check the “play” in the steering wheel and the front wheel alignments.

The most important factor in purchasing an automobile, whether it be new or used, is the reliability of the dealer.

UNETHICAL SCHEMES

Most businessmen are honest and fair, but unfortunately some are not. This small minority attempt to get rich by inflicting all sorts of unethical schemes on the gullible public; every consumer is a potential victim. Most of these schemes try to convince the victim that he is getting something for nothing or that he is getting a lot for a little money. The schemer usually tries to take advantage of the consumer's lack of knowledge and to prevent the consumer from making an investigation. Promises are common weapons — promises that are attractive but generally fail to materialize.

It has been estimated that there are some eight hundred known schemes that have been used to “fleece” the public. It would not be practical to describe them all, but a few examples might suffice to warn the consumer that his interests are best served by dealing only with legitimate businesses and reliable, responsible people.

A. Home-Study Schools

Education is something that lasts us as long as life. Everyone, no matter what occupation he is in, has need of further education. One source of this education is through correspondence and other home-study schools. The majority of these provide excellent service and therefore have earned the confidence of the public. There are some, however, that are quite unethical. It is important, then, to be able to discern unethical practices in order to avoid being taken in. Some suggestions:

1. Investigate the school thoroughly before signing any contracts or forms. This can be done by studying the official brochures of the school; by asking for addresses of graduates of the school who live in the community or the province and then writing to them for an evaluation of the school (responsible schools will provide this information); if possible, by making a visit to the school and examining its facilities; by consulting high school principals and guidance counsellors concerning the school. Legitimate and reputable schools generally welcome investigation, as each one is proud of its good name and its achievements.

2. Beware of high-pressure salesmen. If the salesman appears eager to sign up anyone who can make a down payment, beware, because most reputable schools require that each student be screened before

acceptance. Be careful of salesmen who use such devices as “sign now, the price is going up next month”, or “sign now because I won’t be back in this area”. If the salesman says he has been recommended by a school superintendent or that he was sent out because *you* were recommended for enrolment, check his story. Some salesmen also exaggerate the possible earnings obtainable after the course, the demand for employment offered to individuals taking the course, and the school facilities providing the course. Remember, one cannot buy an education, one has to earn it.

B. Door-to-Door Selling

There are many reputable salesmen who adhere to ethical practices when selling from door to door; however, there are those who must be guarded against. Among these are the “hearse chasers” who call on bereaved persons delivering flowers, bibles, or other articles, claiming that these have been ordered by the deceased to be delivered at the time of death. There is the “college boy gag” whereby boys and girls are organized to sell magazine subscriptions with the story that they are working their way through college, or with some other sympathy-arousing spiel. There are some unscrupulous salesmen of vacuum cleaners and sewing-machines who get the householder’s signature to a purchase contract by misleading her into believing that their products are on trial.

The ethical door-to-door salesman will welcome investigation, and so the prospective buyer should look for the following:

1. The salesman should carry some credentials that the buyer may check. He should have some form of personal identification, a letter of authorization to sell from the manufacturer or distributor, a provincial licence, or possibly a municipal licence (if the municipality requires it).
2. The customer should examine the product carefully. He should not only look for the name of the manufacturer on the article, but he should examine the literature on the product that the ethical salesman will have. Be very sceptical of the salesman who does not carry a sample of the article to be sold but uses coloured illustrations only.
3. The salesman should never demand full payment before the merchandise is delivered to the home, and he should provide a receipt for any down payment.
4. Beware of the salesman who tries to use high pressure — the one who will not accept a courteous “no” without becoming abusive.

5. If there is any doubt in mind, delay purchase in order to investigate. The ethical salesman will not mind calling back after an investigation interval.

C. Quackery

A quack is literally an ignorant person who claims medical skill and knowledge of marvellous remedies; consequently he is a fraudulent pretender to skill of any kind. The word *quackery* is also used to describe extravagant and unfounded claims for drugs, devices, products, and methods, for sale over the counter or through the mail. The following paragraphs will be confined to this aspect of quackery.

Despite the existence of several government regulations, there are drugs and other products offered that should not be sold to the public. Drugs that are dangerous to health and life when used without proper supervision and those that are entirely worthless for the purposes for which they are offered are fairly well suppressed today; but those drugs that are offered for conditions for which they alone do not constitute complete treatment, and that encourage the user to go without proper treatment, are quite common.

The Food and Drug Regulations require that certain basic information be placed on inner and outer labels of all packaged drugs. Both these labels must include such information as the proper name of the drug, the name of the manufacturer or distributor, adequate directions for use, the proper name or the common name of each medicinal ingredient contained therein, and the statement "to be used by qualified investigators only" on new drugs that have not been released for general use. The outer label must also include a correct statement of net contents with reference to weight, measure, or number, and the name and proportion of any preservative present in a drug sold for external use. Although some of the information that is placed on labels is not understandable to the average person, much of it is, and therefore one should read labels very carefully.

Specialists maintain that there are some diseases or disorders that cannot be cured by any known drugs. Consumers are warned about buying drugs as a cure for diseases and conditions such as these: alcoholism, arthritis, baldness, bunions, cancer, kidney disorders, pyorrhoea and other gum disorders, and obesity. All of these require special attention of a physician. Of all the above disorders, probably obesity is the one most commonly attacked through drugs. The only sure and safe way of reducing weight is to cut down on the amount of food consumed, through a diet carefully prescribed by a doctor.

The person who uses medicines on the advice of those who do not have special training is foolish. For minor ailments, the safe procedure

is to use reliable drugs sold by reputable manufacturers and dealers. For any ailment that persists, one should see a doctor.

D. Photo Schemes

A small number of photographers are not truly artists and apparently cannot depend on their skill and fair dealing to attract customers. Some of them take on "studio" names but have no studios; they have their films developed and printed by outside firms. Some "photographers" carry beautiful samples of photographs to show prospects, but the delivered product does not measure up to the sample. Sometimes finished photographs are sent to customers C.O.D. so that the customer doesn't get a chance to examine the pictures before paying for them. Sometimes the customer signs a contract for a framed picture in which the exorbitant cost of the frame may be hidden in legal terminology. Mythical "personality" or "Baby of the Month" contests are sometimes used by unethical operators to get business.

The ethical photographer takes great pride in his work and has developed a good business by having an honest reputation. Customers should deal only with photographers who are known for artistry, honesty, and reliability.

QUESTIONS

1. Explain the difference between a standard and a grade.
2. What are some of the helpful items that might be found on a good descriptive label on a food product?
3. Why is an article not always a bargain even though its price is low?
4. Why is it generally possible to get a better bargain on winter clothing in early January than in early December?
5. Why is price a poor guide in buying?
6. Why should a person beware of bottles and jars that have unusual sizes or shapes?
7. Why is the purchase of second-hand appliances a gamble?
8. Why do some types of drapery fade with dry cleaning?
9. Which is better – solid wood or veneer – for panels in furniture (for example, in the doors of a buffet)?
10. Under what conditions is second-hand furniture a good buy?
11. Why is it generally advisable to buy a mattress and spring together?
12. Why do high-quality paints go further than low-quality paints?
13. What is a lien?
14. What is meant when a car salesman says he will sell a car "as is"?

PROBLEMS

1. Make a list of all products used in your home on which you can find any of the grades described in this chapter.
2. Find a label that you think is either (a) helpful or (b) not helpful in buying merchandise, and bring it to school.
3. Investigate variations in price of some commodity sold by several merchants in your community. Be sure to compare only goods of equal quality.
4. Make a list of at least six items and state the time of year you think each is at its lowest seasonal price.
5. A man decides to paint the exterior of his house. The house is 24 feet square and is 10 feet high from ground to eaves. Approximately how many gallons of paint will he require if the paint he has purchased is advertised to cover approximately 450 square feet per gallon?

DISCUSSION

1. Discuss some situations in which
 - (a) a high-quality product ought to be purchased.
 - (b) a lower grade might serve equally as well.
2. Name several articles that you think it would be impossible to grade. Discuss why you think they can't be graded.
3. Discuss why you and your family buy the following items from different stores: (a) groceries, (b) drugs, (c) clothing.
4. "One of the first steps in judging the quality of a piece of furniture is to remove and examine a drawer." Discuss.
5. "Any good that has a warranty is a good buy." Discuss.
6. "Building a home is more advantageous than buying a ready-built house." Discuss.
7. Discuss unethical schemes other than the ones mentioned in this chapter.



VII *Advertising*

“Business today consists in persuading crowds.”

—GERALD STANLEY LEE

Although advertising is in a sense the art of acquainting customers with the nature and use of merchandise, it is also the art of persuading them to purchase the merchandise. In modern times, it appears that advertising is necessary because consumers and producers are so far apart that some form of communication is required between them. Also, the advertisements can supply the consumer with considerable information. On the other hand, it is possible that consumers can be influenced unduly by clever advertisers who play on their emotions and mislead them. Consequently, consumers should protect themselves by analysing advertisements carefully and critically.

PURPOSE OF ADVERTISING

Advertising can perform certain useful functions. Some of the reasons given for the value of advertising are the following:

1. Unless there is some form of advertising, a producer would never be able to communicate with consumers. Thus, advertising informs the consumer about existing and new products.
2. It informs consumers of new uses for products that are already on the market. For example, the advertiser may show the public a variety of ways to use a type of cheese that has been available for years.
3. It creates a demand for a particular product or type of product by exciting the consumer's desire to own it. Thus new markets are opened up and the volume of sales increases; this in turn enables the advertiser to sell the product at a lower cost.

KINDS OF SALES APPEALS USED IN ADVERTISING

1. Emotional Appeal

In this type, the advertiser appeals to the emotions by suggestion. The buyer is not invited to deliberate or compare, but is made to feel that the article in question will please his senses and satisfy his desires.

2. Rational Appeal

In this type, the advertiser reasons with the consumer. He presents facts that cause deliberation. He presents logical reasons why the product should be purchased.

Examples:

EMOTIONAL APPEAL

A Girl's Dream Come True
New Spring Suits
\$29.95

The latest thing in sensation and excitement. The ultimate in dress design. Tailored specially for a slenderizing effect. These pink, yellow, and blue pastels will provide a thrill to every purchaser.

STEWART'S LIMITED
21754 - 31 Street

RATIONAL APPEAL

Ladies'
Spring
Suits
\$29.95

A new shipment of tailored tweed suits made from wool fabrics in a wide range of colours and patterns has just arrived. Excellent for street or office wear. No alteration charge.

STEWART'S LIMITED
21754 - 31 Street

Both of the foregoing examples use additional measures to attract a customer. Some advertisements appeal to our sense of dissatisfaction: "Are you unhappy about toast?" cries one ad showing an unhappy couple looking dejectedly at two pieces of blackened ash that have just jumped out of their toaster at the breakfast table.

Some ads appeal to the customer's ego: "Be the envy of your community — get yourself an extra wide, king size, twice as large, longer lasting colour TV at a mere \$2,000." Trying to keep up with the Joneses seems to be a powerful urge to many people and often results in much wasteful buying.

Other ads appeal to economy-minded consumers: "Ask for the large economy size at your grocer's today." The story is told about the man who went into a drugstore and asked for a small tube of toothpaste. The clerk gave him one marked "Large", and when he protested and said he wanted a small one, the clerk replied, "Large is the smallest

we have. The next size is Giant and then comes Super. If you want the small size you have to ask for Large."

Sometimes an appeal is made to people's desire to conform and be like other people: "Get the wider, handsome deluxe model — the kind your neighbours are installing." "Notice how many more people are arriving in Lincolns."

Many other appeals are made by advertisements. They reflect our desires for popularity with the opposite sex, for comfort, for pleasure, and for beauty; they offer the "answers" to our fears and our worries about health and safety; they rouse our sympathy, or our passion for efficiency, or our concern for our prestige and the correctness of our taste. There is such a variety of appeals that no matter how sincerely the customer may pray, "Lord, help me not to want the things the advertisers want me to want," he lives in an almost continual state of siege.

COST OF ADVERTISEMENT

Some of its critics maintain that advertising should be eliminated because it is costly, and this cost, when added to that of the product itself, makes the article expensive. Actually this is not always true. Advertising sometimes has a tendency to make the product cheaper by increasing the volume of production and distribution. Advertising may excite a desire for a product and thus promote sales. The increased demand may make mass production and mass distribution possible, and thus may have a tendency to lower prices.

Although the cost of advertising appears high, it is often considered to be a small part of the cost of the article. For example, a television commercial that costs the dealer \$10,000 may reach as many as 10,000,000 Canadians. This amounts to about 1/10 of a cent per person. Also, when one considers the number of items sold, the cost of advertising may be small. It has been estimated that in the case of a well-known brand of soup, only 36/1000 of a cent per can was spent on advertising. The low cost of advertising is not always apparent. The money expended for advertising by billboard, direct mail, newspaper, magazine, radio, and television may appear high to the average customer, but it may be quite small when figured in terms of the number of people reached and the resulting sales. So, in respect to cost, it appears that advertising may be good for the consumer. However, not all types of advertisements are honest. Dishonest advertising certainly is disadvantageous to the consumer.

DISHONEST ADVERTISING

Most advertisers are honest. Well-established business concerns recog-

nize that honest advertising promotes a more permanent success. Publishers of newspapers and magazines recognize that dishonest advertisements cause an unfavourable reaction that cuts down on their circulation. Despite this, however, there are a minority of advertisers who are unscrupulous, and consumers should be on their guard against them.

A. Testimonials

Often famous sports people, film stars, and political figures sell their names and photographs for use in advertising. They endorse a product by actually stating in print or on television how much they like the product. Not all testimonials are dishonest — but obviously these people who have no experience or knowledge to judge have simply sold their names for money or publicity. In evaluating testimonials, one must consider carefully if the testimonial comes from a person qualified, by training, experience, and integrity, to speak for the product.

B. Shallow Eye-Catching Statements

Often slogans or eye-catching quotations are used to attract attention. Slogans such as “The Most Beautiful Car In Canada” or “The Perfect Dentifrice” are impressive, but they are obviously extravagant and do not convey any real assurance of quality, performance, or value. One should read the advertisement carefully, then learn something about the quality of the product, the contents, the cost, and so on before purchasing the article.

C. Exaggerated Statements

A businessman who exaggerates or mis-states in his advertising is likely to exaggerate and mis-state in his selling. Such statements as “name your own deal”, “we beat any deal in town”, and “we undersell” are generally signals to be on guard.

D. Misleading Advertising

There are always a few unscrupulous people who try to take advantage of others. Their main aim, of course, is to obtain money at the expense of the consumer. They do this by devising dishonest schemes that include glittering promises that never come true; or in some cases they use advertising that is deliberately deceitful. A couple of examples may suffice to give the consumer some idea of what he must guard against.

1. BAIT ADVERTISING

This involves advertising of a product at extremely low prices with no intention of selling that product. The whole aim is to get a customer

into the store or a salesman into the home for the purpose of switching the sale to a higher-priced and sometimes over-priced article. The switch involves discouraging the customer from buying the advertised article and encouraging him to buy something else. Some of the methods used: saying or implying that the advertised article is of inferior quality; stating that customers have complained about the article; implying that the article contains no guarantee; stating that the manufacturer is going out of business and the article or parts cannot be replaced; implying that the article will not give satisfaction; or simply making a downright crude remark about the quality of the article — anything to discourage the customer from buying the advertised article. All of these statements are contrary to the impression created by the advertisement and so make the advertisement misleading.

This type of advertising is often used in selling articles that are difficult to compare with others, for the customer usually knows little about prices or values for these articles and must depend on the honesty and fairness of the seller. Often unethical car dealers use the “bait” technique. In order to make the “switch”, sometimes the bargain car advertised has “just been sold”, or the customer is merely told privately that the car is really in poor condition. Bait advertising is also used in selling articles such as furs, furniture, home appliances, jewellery, radios, television sets, vacuum cleaners and sewing-machines.

The honest and reputable businessman is more than eager to sell the goods he advertises. The disreputable businessman may not carry a large enough supply of merchandise to meet the demand aroused by his advertising; so he stoops to this method to make sales.

2. CONCEALED ADVERTISING

Sometimes scheming advertisers use misleading trade names; that is, they give their product a name that is intended to be confused with the name of a reputable brand. Sometimes they do not accurately and fairly describe their merchandise. Again, they may offer fictitious allowances on trade-ins or increase their prices to cover generous trade-ins. Sometimes business concerns masquerade as “wholesalers”, then misrepresent their merchandise and charge prices that are actually higher than the average retail prices.

In other words, the advertising throughout in all the above schemes is not honest; the truth is concealed with the intent of attracting a gullible customer.

QUESTIONS

1. What is the purpose of advertising?

2. What appeals are used in advertising?
3. Who pays the cost of advertising?
4. Why is testimonial advertising often frowned upon?
5. What is the basic purpose of "bait" advertising?
6. Why is "bait" advertising considered to be misleading?
7. Explain the necessity of advertising as a communication medium.

PROBLEMS

1. Bring to school examples of emotional and rational advertisements.
2. Bring to class an advertisement containing a testimonial that you think is insincere. Be ready to give reasons for your choice.
3. Find the best advertisement that you can secure. Prepare a written statement as to why you think it is a good advertisement from a consumer's point of view.
4. Select ten advertisements from newspapers and magazines that are directed at the following human feelings: fear; ambition; pride; sympathy; desire for comfort; desire for affection; anxiety about health; anxiety about safety; concern with personal appearance; wish to be fashionable.

DISCUSSION

1. If we were to eliminate all forms of advertising, would we be able to obtain better and cheaper goods?
2. "Advertising has converted many luxuries into necessities." Discuss.
3. "An uneducated person is a toy in the hands of an advertising expert." Discuss.
4. "Advertised banks are always the most dependable." Discuss.
5. How do testimonial advertisements by athletes sometimes serve a useful purpose?
6. Which type of appeal would probably be most effective in attempting to sell a truly educated person?



VIII *Consumer Aids*

"Light is the task when many share the toil."—HOMER

Because of the infinite number of goods and services available, the average consumer not only has to use all the wisdom, good judgment, and personal resources that he can muster, but he has to enlist the aid of outsiders as well. There is plenty of outside help available at the present time from the government, from private agencies, and from informative publications. It is the purpose of this short chapter to list these sources, indicate their function, and show how they may be used.

GOVERNMENT AGENCIES

Agencies of individual provinces and of the federal government of Canada can be very helpful. The latter, besides passing laws to protect consumers, also distributes information that can help people to protect themselves from exploitation and get the most out of their purchases.

A. Department of Agriculture

Numerous pamphlets have been published by this department to aid the consumer in making a wise selection of goods. Particularly helpful is their pamphlet describing and naming the various grades of food. *Buy By Grade*, a consumer's guide to buying graded foods, and many other publications can be obtained without cost from the Information Division, Canadian Department of Agriculture, Ottawa, Ontario.

B. Department of National Health and Welfare

One of the branches of this department is the Food and Drug Directorate. Its several sections, including the Chemistry section, publish many helpful pamphlets. Two good ones are *The Label Story* and

Food Chemists. These are obtainable without cost from the Information Services Division, Department of National Health and Welfare, Ottawa, Ontario.

PRIVATE AGENCIES

Consumers should be aware of the fact that there are some private agencies that can be called upon for protection and guidance in buying.

A. Better Business Bureau

This is a non-profit organization composed of representatives of business who feel a civic responsibility toward their customers. It is essentially a fact-finding organization that provides a variety of services to the public free of charge. The Bureau hopes to eliminate the cause of consumer complaints against business by "preventing unfair treatment; by promoting fair advertising and selling practices; by promoting advertising that is informative; and by fraud prosecution".* In addition, the Bureau assists schools and organizations in teaching economic consumer education and provides a wealth of educational material through booklets, bulletins, and pamphlets. Almost unlimited help and guidance can be obtained by consumers from the Better Business Bureau of Edmonton, Box 473, 10126-99 Street, Edmonton, Alberta, and the Better Business Bureau of Calgary, Room 404, Bamlett Building, 630 8th Ave. S.W., Calgary, Alberta.

B. Consumers' Association of Canada

C.A.C. is an incorporated association under Canadian law. It is a non-profit, non-sectarian, and non-political organization. The association obtains its money primarily from members' fees, although the Canadian government contributes a grant. The C.A.C. is independent of business and industry. This organization is concerned that products live up to the claims of manufacturers; that misleading advertising is curtailed; that clear statements of interest and service charges on time payments are given by sellers; that meat comes from healthy animals; that bacon packages show the whole slice, not just the attractive edge; that eggs purchased have been kept in proper cold storage; that gradings of food become more uniform in Canada. This association provides its members with many buying guides, publications of results of consumer product tests, and general information for better buying. To become a regular member, which includes subscription to their bulletin, *Canadian Consumer*, costs \$3 per year; the same membership privilege is granted to students for \$1 per year. Information and aid can be obtained from Consumers' Association of Canada, National Office, 1245 Wellington Street, Ottawa 3, Ontario.

*"Facts you should know about your Better Business Bureau", p. 7.

C. Local Credit Bureau

This is a local organization that keeps accurate records of how individuals have paid their credit accounts. This information is usually available to all members of the bureau and to the members of about 1,800 other credit bureaus from coast to coast in Canada and the United States. The purpose of the bureau is to discourage people from buying things for which they cannot or will not pay, and to encourage people not to get beyond their depth in the use of credit. It can serve as a favourable reference for those who have sound credit habits; if a consumer has a good record on file in this organization, he will probably find it easy to establish credit with new people in a new neighbourhood or in a new city. For further information, ask your local credit bureau.

MAGAZINES

Although the following are American publications, they have considerable application in Canada:

A. Consumer Reports

This is a monthly magazine published by an organization in the United States known as the Consumers Union. The purpose of the Consumers Union is stated in its charter: "to provide for consumers information and counsel relating to consumer goods and services . . . to give information and to co-operate with individual and group efforts seeking to create and to maintain decent living standards".

One of the ways it attempts to fulfil these purposes is to publish a monthly magazine called *Consumer Reports*, which offers the latest information on different kinds of merchandise with comparative listings of competing brands. By subscribing to this magazine one is entitled to become a member of the Consumers Union. Subscription rates for Canada are \$7 a year; subscriptions should be mailed to Consumers Union, Mount Vernon, New York.

B. The Credit World

This is a monthly magazine that covers current happenings in the entire field of consumer credit. It is published by the International Consumer Credit Association. Non-member subscription price is \$6 for one year, \$10 for two years, and \$15 for three years. Subscriptions may be obtained by writing to International Consumer Credit Association, 375 Jackson Avenue, St. Louis 30, Missouri.



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